4-1-2022

Lessons Learned: Steven Rattner

Mary Anne Chute Lynch

The Journal of Financial Crises

Volume 4 | Issue 1

Lessons Learned: Steven Rattner

Mary Anne Chute Lynch

Recommended Citation

Lynch, Mary Anne Chute () "Lessons Learned: Steven Rattner," *The Journal of Financial Crises*: Vol. 4 : Iss. 1, 468-473.
Available at: https://elischolar.library.yale.edu/journal-of-financial-crises/vol4/iss1/25

Yale Program on Financial Stability
Lessons Learned

Steven Rattner

By Mary Anne Chute Lynch

Steven Rattner, an investment banker and private equity professional, joined the Obama administration as counselor to the Secretary of the Treasury and head of the Obama administration's Task Force on the Auto Industry, which was charged with providing aid to Chrysler and General Motors, and later to other entities, to avoid their disorderly failure and the loss of a million or more jobs. The Auto Task Force worked intensely throughout 2009 to swiftly negotiate with the corporate leadership, unions, investors, and other stakeholders of the two manufacturers to design an orderly restructuring that would put the companies on a path to stability. Rattner has chronicled the Task Force's efforts in his book, Overhaul: An Insider's Account of the Obama Administration's Emergency Rescue of the Auto Industry. *This Lessons Learned summary is based on an interview with Mr. Rattner.*

Leadership is critical to success in a crisis.

A president or leader must understand the problem, how to deal with it, and create a business plan, Rattner said. The solution cannot be short term but must be permanent to fix the industry. As it happened, he pointed out,

> This was set up as well as it could possibly be. We had a leader, that is, the President [Barack Obama], who understood the problem . . . understood it should be dealt with, with as little politics as possible, understood that we should not be looking for short-term, band-aid-type solutions, but for solutions that would be permanent and really fix these companies, fix the industry.
>
> [...] We thought about it as a business plan, that I checked and . . . went through the types of people we needed, what the jobs were, how many people we needed
>
> We had probably five different groups that all reported to me . . . There was a group that worked with Chrysler; there was a group that worked with GM; there was a group that worked with the finance subsidiaries . . . We had a legal team, two lawyers. There was a group that . . . was a liaison, if you want to call it that, with the White House on policy issues . . . I supervised all of them. I wasn't working any harder than anybody else. We all had a lot to do.

For better, quicker results, politics should be kept as far away from crisis interventions as possible.

President Obama advised the Task Force to solve the auto industry crisis with as little politics as possible. Rattner wholeheartedly agreed with this viewpoint: "The way we set this up with the instructions from the president to be commercial, to keep politics out of it, to not favor constituencies—were all the right advice."

The Task Force also followed this mandate when it had to replace corporate board members at General Motors, said Rattner. They kept government people off the board so that the companies could operate as independent businesses in the private sector.

Timely access to funds for relief is critical and enables quicker implementation once decisions are made.

Having access to money to negotiate with the companies made the auto bailout possible, Rattner said. If they had to go to Congress, one of the companies would have failed. He elaborated further:

> We had, under the Bush administration, TARP [Troubled Assets Relief Program] money, intended mostly for the banks, but it was available to us, and that allowed us to put money in these companies without going through Congress, and that was an important piece . . . It's a disaster . . . if you have to go to Congress . . . Once you bring Congress into the equation, it makes it a lot more complicated. There's no question about it.
>
> [...] In 1978 or 1979, Chrysler also was almost bankrupt, and they did have to go to Congress . . . and it took Congress a year and a half to deal with it, and they put all kinds of conditions on it, including the price of the electric car, which, at the time, was obviously crazy.
>
> Having the ability to do this solely on the president's authority, made it possible . . . If I had my dream, it would be to have access to something like a TARP fund the next time you have to do this.

Even though time is of the essence, or maybe especially because it is, in a crisis, all options must be considered. The result should be an intervention that is a better fit for the targeted problem.

While seeking the best way to quickly prevent the failure of the auto companies and their suppliers, which were on the brink of closing, the Task Force considered multiple options. The Section 363 bankruptcy, an expedited process requiring court approval, is most useful when the situation is urgent, as it was in the auto industry with dependent auto-supply companies and millions of jobs at stake, Rattner said.

> It became clear pretty quickly that bankruptcy . . . was really the only way to do it . . . As I wrote in my book, we did not know what the impact of bankruptcy would be on companies like these. Consumers might have stopped buying. And we thought about it a lot, but there was no alternative. Then we did our best—to use a Tim Geithner expression— "to put foam on the runway," to try to put as much protection around what we were doing as we possibly could.

An example of this, says Rattner, was the government's backing the warranties on purchases of new autos to reassure consumers reluctant to trust companies going through a bankruptcy process.

Diplomatic negotiations and leverage are needed.

Industry leaders are often in denial of their weak financials and operations, Rattner said, and GM and Chrysler had some of the worst financials he had ever seen. Corporate leaders often do not see how to restructure their corporations to survive and become viable again. Diplomacy and leverage are the tools needed to educate and deal with them. Rattner explained further:

> [GMAC and Chrysler needed] a lot of patient coaching and coaxing, and when it was necessary, when it came to it, basically telling them, this is the way it had to be. When you're a company and you're in distress, near bankruptcy, whatever you want to call it, and somebody is offering you money, you do tend to respond to that and listen to what they have to say.
>
> There's an old expression on Wall Street, "He who has the gold makes the rules." And we had the gold, that is, the money they needed.

In a situation like General Motors, changes in company leadership should be considered for several reasons.

Some companies need a change of corporate leadership to turn the business around, said Rattner. With General Motors, the Task Force separated the board chairman and CEO positions—bringing in a new chairman from outside the industry and removing the ineffective CEO. They also vetted and replaced half the board members but kept government people off the boards. According to Rattner, the reasons behind these actions were several:

> If you have good board members, you have no reason to replace them. We had some good ones and some less [who were replaced].
>
> [...] I liked the idea of having a chairman who's separate from the CEO, which was very typical in Europe . . . less typical here [in the United States]. I thought it provided an additional governance check on the whole company.
>
> [...] I was back and forth about [replacing the CEO] . . . Basically, there were two conflicting points of view . . . One was that with a company as dysfunctional as this company was—from a cultural and a management point of view—promoting an insider was unlikely to fix the problem . . . The other point of view was that bringing in an outsider, especially on this kind of tight timeframe, it would be really difficult to find somebody, who at the end, actually could do the job. Both points of view are right. I had to make a decision . . . We ended up promoting Fritz Henderson [from within GM] to be the CEO. I think he did a decent job.

The government must act in crises, because often it is the only one who can. But for the most effective results, the executive branch should stay out of day-to-day management.

Rattner approached this point by saying: "I believe that the executive branch needs to have authority to act when there are huge problems. This was a huge problem. We had the authority to act, and so we did." But once government decides to act, Rattner believes that the executive branch should set broad objectives and then let the experts do their thing. He was pleased with President Obama's approach:

> I really, honestly believe that the way we set this up with the instructions we got from the president to be commercial, to keep politics out of it, to not favor constituencies, were all the right advice. We got enormous support from the president, and I don't think I could ask for better on that front.

Yet, Rattner also acknowledged that once government acts, no matter how it acts, there is usually a chorus of criticism of all types. He said, "we were criticized as being heavy-fisted, the big arms of government, and all that." And there was also a competing viewpoint, said Rattner,

> A number of my colleagues who were working in the trenches with these companies, were eager for us to . . . get more involved in day-to-day management. But, I think, you have to know what you know, and know what you don't know. And I did not feel we were day-to-day management. I thought we were restructuring guys and private equity guys and so forth.

Staying away from day-to-day management was consistent with President Obama's broad directive to the Task Force, said Rattner. This was also reflected in how board members were sourced:

> One of the important principles was for these companies to be in the private sector, and that's why we didn't put government people on the board
>
> [...] We did set some conditions on the loans . . . but for the most part we wanted these companies to operate as independent private enterprises.

Rattner believes that the decision not to put anybody from the government on the boards of the companies and not to do day-to-day management, "was exactly the right decision that was made for us and kept us on the better side of the line or appropriate side of the line for what we had to offer."

Adhering to the highest standards helps establish credibility and might help avoid a lawsuit or two, or at least defend against them.

Rattner was clear that just by the size and nature of the intervention there was bound to be criticism and lawsuits. However, he feels that the Task Force was very effective in its approach and practices based on the objectives it was given:

> I think that we used the government's money as efficiently as we could. I recall, out of the $82 billion that we put into the companies, I think the government lost $10 [billion] or $11 billion. In return for that, we saved these companies. We saved a million jobs in the Midwest. We saved an economy from becoming even worse than it already was.
>
> I think in terms of money that government spends, when you look at how much money the government spent on other parts of the stimulus program and things like that, I think they got incredible value for their money, and nobody got unjustly rewarded.

As Rattner further explained:

> We felt that any restructuring needed to be done to the highest commercial standards, what we felt was best to make the company function. That included needing workers to make the cars. Obviously, that left all sorts of people unhappy, who felt they had been unfairly treated. We obviously didn't feel they'd been unfairly treated.

Rattner acknowledged, however, that not everyone saw it that way. Yet, he stands by the Task Force's practices. As he sees it:

> The important thing is that we made every stakeholder in those companies bear some of the pain, which is why there was some litigation. The dealers were paying. The suppliers were paying. The workers were paying, contrary to what some people think.
>
> The shareholders were essentially wiped out, so they bore a lot of pain. A number of the other creditors bore very significant amounts of pain. We treated everybody, we think, fairly and in accordance with best practices
>
> [...] There's not been a successful lawsuit against the government for anything we did. Every single thing we've done has been upheld in court to the extent it has gotten to court.

There is a limit to what government can do to prevent a similar crisis.

With respect to the auto industry, Rattner said there is a limit to what the government can regulate, if the companies are to remain competitive and independent.

> I'm not sure there's too much you can do differently, if a company decides to get in trouble and run itself off a cliff, which is what General Motors did in effect. That's why the private sector is the private sector.
>
> I think any benefit that you would get by having the government have tighter oversight over how these companies are managed . . . would be lost because it would diminish the general quality of the management. I think at the end of the day you just have to rely on the private sector and these companies to do the right thing.

> And I would say in fairness to them, while they made a huge number of mistakes, and I don't want to diminish them in any way or minimize that in any way, shape, or form—they made a huge number of mistakes—but that said, they also were, to some degree, collateral damage from the overall financial crisis.
>
> The fact that lending dried up, people stopped buying cars, all that wasn't really their fault. Obviously, they could have been prepared better, but the banks weren't prepared better. Lots of companies weren't prepared better. It was a once in a lifetime—hopefully—event.

Government does not operate like the private sector.

Rattner came to the Task Force without direct experience working for the government and offered advice for anyone considering joining the government on a short-term or career basis.

> If somebody . . . is coming from the private sector and [has] never been in government, which was my state of affairs, you really have to prepare for it. I'd been around government enough that, I think, I was reasonably well prepared for it, but what you have to be prepared for is the fact that government is not the private sector. It's the biggest bureaucracy in the world. There are many competing agendas. Politics always somehow get in the mix . . . If you come from the private sector, you don't go to government thinking it's going to run like a company does . . . It's a very different animal.
>
> I think my experience serving was about as perfect and as fulfilling and as impactful an assignment as you could have. I have many friends who have gone [into] the government, and for whatever set of reasons, weren't able to make too much progress on the issues they were working on . . . I had an issue that I could make progress on, and we did. If I could find something like that, where I could help again, yes, I'd certainly think about it.

Dated: April 2022
YPFS Lessons Learned No. 2019-53