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Yale Program on Financial Stability

Lessons Learned

Michele Davis

By Mercedes Cardona and Rosalind Z. Wiggins

Michele Davis was assistant secretary for public affairs and director of policy planning under US Treasury Secretary Henry M. Paulson, Jr., from 2006 until January 2009. She had held the same job under Secretary Paul O'Neill from 2001 to 2002. Davis had returned to the Treasury after a stint in the George W. Bush White House, where she was deputy assistant to the president and deputy national security adviser for global communications from 2005 to 2006. Before working in the White House, she had been a senior VP at Fannie Mae. This "Lessons Learned" is based on an interview with Davis in January 2019. The full transcript can be accessed [here](#).

Keep up the cadence of communications, which will require resources and strategy.

The Global Financial Crisis (GFC) stretched the resources of even the Treasury's communications department, Davis said. The demand for information was overwhelming. Treasury had to decide the most effective way to provide that information given the limitations and surrounding circumstances. Davis decided against regularly scheduled press briefings, "because reporters behave differently in that on-camera environment, and that can prompt volatility that otherwise would not exist." She explained the strategy Treasury chose:

We decided it was better that every day I had to be in regular and constant contact with all the major news outlets: CNBC, Bloomberg, the Wall Street Journal, the New York Times, the Washington Post, etc. The most important thing was that we got back to them in real time every day to make sure that they were not going down the wrong path in what they were expecting us to do or weren't speculating about what we were doing. And in doing that, we had to make sure that we were not giving away news that was not public.

The upcoming 2008 presidential election posed a particular challenge, said Davis. Concerned with intruding, Treasury went quiet in the ten days before Election Day to avoid "making any new news." But the decision to go quiet caused more problems than it solved. When the department made a necessary announcement right after the election, it "was probably the least understood thing that we did in the whole crisis period, because we had been so quiet," said Davis. She explained:

We had been working internally, . . . cranking along at all year, getting new tools ready, making key decisions about things we had to do. But we had not communicated any of them during that period running up to Election Day. So, when we unveiled it, all at once, the market, and the press, and the market participants could not keep up with us. We announced stuff, and they were like, "Whoa, where did that come from? I had no idea you were thinking about that."

It really surprised us, but it kind of reinforced the point that you have to be communicating all the time, and at least keep the market participants up to date and

moving down the same path with you. Otherwise, you are catching too many people by surprise.

Regularly scheduled briefings aren't necessarily a solution if there is nothing new to say, but maintaining a flow of information can avoid surprises.

Sweat the logistics: You can't have a crisis plan for the apocalypse, but you can think ahead of time about small practical things, like having a briefing room ready during off-hours.

The 24/7 news cycle was already in play during the GFC, and because of the global nature of the crisis, events would take place in Asian and European markets while the US exchanges were closed for the day. Sundays became news days because of the Sunday news shows and the Asian markets. But the first time Treasury needed to make a Sunday statement to the press, the building wasn't equipped. The Secret Service didn't have enough security to bring the press in the building, so a podium had to be put outside to hold a press conference. "It's just sort of the practical stuff that gets in your way of being effective," said Davis.

Maintain relationships: Knowing your counterparties at other departments gives you an advantage in maintaining good communications in a crisis.

"You cannot get to know each other in a crisis. It is too late," said Davis. Before joining Treasury, Davis had worked on Capitol Hill and at the White House and Fannie Mae. Not only was she familiar with the operations of those other organizations that were key in managing the GFC, but she knew many of the staff who had served during the Bush administration. "There was a lot of cross-pollination that had happened over the course of the first six years of the administration," she said. "We had those long-term relationships and trust that made it a lot simpler to navigate."

The speed of a crisis is its own challenge. You may not be able to tell the whole story to all audiences in a convincing manner while the crisis is ongoing, but you need to try.

During the GFC, Davis notes, there were audiences with different priorities and points of view; it was impossible to put out a message that would reach them all at the necessary speed. "The world was unwinding too fast," said Davis. She pointed out how the public was emotionally invested in the failure of the mortgage market—many were losing their homes—and no communication would have been able to ease that loss. At the same time, Congress members had to explain events to their constituents. The challenge was to communicate as much as possible, as clearly as possible, to many audiences. She said:

There is always plenty of little things that we wished we had done. But, given the time constraints driven by how fast events were moving, it is almost impossible to do all of the communicating you would theoretically like to do. When I think about lessons learned, and what do people need to understand about communications if there's another crisis, is: You will not be able to explain, persuade, and convince the public at the same speed at which all these events are taking place. You just cannot.

If you set that out as a goal, or a measure of success, then you are setting yourself up to fail. Because things were just happening too fast. The world was unwinding way too fast. No matter what you said to the average homeowner who was struggling to pay their mortgage, and who's really mad at the guy next door who took out a loan he couldn't afford and then went into foreclosure. And now there's weeds growing, his property value is dropping, and now the economy's slowing, and he is going to lose his job, and not be able to pay his mortgage. That average homeowner never had reason to pay attention to the market for mortgage securities or the interconnectedness of financial institutions. And now he does not have time to absorb all of that. He is just mad. He is just going to be mad at everybody who "let this happen," and rightly so. That is just a normal human reaction.

Nothing you do is going to fully assuage that. It does not mean you should not try to explain, or to explain yourself better. We absolutely needed to communicate as much as possible to that audience, not just to markets and politicians. But Hank [Paulson] talks about this all the time—how at one point, the bank bailouts were even more unpopular than torture. He is right, and I do not think that can be chalked up just to, "Oh, we failed to communicate." The whole financial system let people down.

There is no way to win the communications in a crisis, if you define winning as public opinion approving of the actions you take. Things move too quickly, and the public, who does not follow markets, does not understand the role banks play, maybe does not even know what the Fed is. You cannot bring them along fast enough, to understand that policies to support the financial system—"Wall Street"—were critical to keeping their own personal financial situations from getting a lot worse. That if more big banks failed, it would mean an even deeper housing crisis and economic crisis for Main Street. That is not a natural leap for someone who is not versed in financial markets.

For the Congress, she would take a different approach. Giving legislators the tools to explain basics of what was going on and brief their constituents on issues such as the points of the Emergency Economic Stabilization Act of 2008 would have been helpful, said Davis.

That is the one place I wish we had done more. I wish we had prepared some primers or slides and pushed them out to people. And for congressmen to use in their town meetings, at least a framework for how to start the conversation. Not that they were going to win people over, and suddenly have lots of support for TARP [the Troubled Assets Relief Program], but some basic materials like that could at least make them a little less anxious about having to try to explain to their constituents.

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