Lessons Learned: Paul Boothe

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It is important to present a united front when multiple countries are negotiating with industries. For best results, maximize and coordinate the strengths that each country brings to the negotiations.

The negotiations with the auto industry were “very demanding—and it was relentless. There were no holidays,” Boothe said. Because of the 80/20 partnership with the US, it was important to present a united front to the other side: “Anything that might be controversial between the two countries, we discussed it before we went in [to negotiations].”

The two countries also coordinated to maximize the strengths of their personnel:

There was a huge amount of uncertainty. There was no living memory in Industry Canada [a regulatory agency] of having gone through a process like this. We were learning by doing. I think that the combination of our industrial expertise and the financial market and bankruptcy expertise of US Treasury worked very well. For example, the US Treasury took the lead in conceptualizing how the bankruptcy process would work, and we took the lead, at least for Canada, in saying, “Well, these are the kinds of undertakings in terms of production, et cetera, that we want from the companies.”

Initially, US Treasury didn’t focus much on that, but I remember having discussions with [Obama manufacturing policy adviser] Ron Bloom about what our undertakings were like, and him having discussions with the Treasury and his colleagues in the White House, [leader of the US Auto Task Force] Steven Rattner, [National Economic Council Director] Larry Summers, and [Treasury Secretary] Timothy Geithner, about which of those undertakings would be appropriate for the US to talk to GM about.
Other major events on which the two countries' teams coordinated closely were the bankruptcies of GM and Chrysler. Boothe described how careful coordination and innovative thinking between the Canadian and US teams streamlined the complicated process:

Chrysler’s bankruptcy went first, and it was a bit simpler. It was a trial run. The other thing that complicated this bankruptcy proceeding was that it needed to be an accelerated bankruptcy, but it was a bankruptcy in two countries. That’s not unheard of. Sometimes this happens, and the bankruptcy courts in the two countries collaborate. The view, especially for General Motors, was if we could keep GM Canada, which was a wholly owned subsidiary of GM Global, out of bankruptcy, then that would simplify matters substantially. That was our goal. That was the aim of both the US Treasury and us . . .

Ultimately, the Canadian bondholders were tracked down and they agreed to the haircut that we wanted, and GM Canada did not go into bankruptcy. We still maintained our proportionality with the US, but that meant that the way we financed things was a little bit different than the way US Treasury did, because it was a bankruptcy in one country and not in the other.

**Paying close attention to financial innovations and potential risks in the broad financial system can help detect little bumps that might grow into systemic crises.**

Boothe first heard about mortgage securitization when he was a G-7 deputy attending Financial Stability Forum meetings. He recalled one meeting where former Federal Reserve Chairman Alan Greenspan spoke about this new development.

I can remember I used to sit next to Alan Greenspan, and I remember him giving a presentation at the Financial Stability Forum and saying, “This is a great source of innovation. And this is expanding the US economy at a tremendous rate.” It was generally thought to be a very positive thing. And I’ll be honest, I didn’t fully understand it. I knew it wasn’t happening in Canada, and I didn’t fully understand it, but it was happening in the US. I think a lot of people didn’t understand the potential downsides of this.

Although there weren’t many subprime mortgages and securitizations in Canadian banks, looking back, Boothe said, “I wish we had paid more attention to the risks then.”

The US government had the idea that they were trying to encourage homeownership, and this was one of the ways that they would do it. But the risk got way out of hand. On one hand, it was a regulatory failure, but it was also a failure in the financial institutions to keep track of those risks, because when it came time to figure it out, when the music stopped—What musical chair should I sit in? Suddenly people looked around and there was either no chair, or they didn’t know what chair was theirs. I think, with hindsight, it would’ve been great to have known where the risks were. We might have been able to avoid a lot of the problems.
Ultimately, Boothe pointed out, the effects of the US failure were not just limited to the United States. “If something happens in the US, it is a big worry for everybody in terms of financial markets,” he said. Going forward, shared information of a similar nature about potential risks should be carefully considered by groups like the G-7.

**Government leaders need to understand when the problem is systemic and support intervention even when such action is unpopular.**

“There are times when governments need to get involved, but pretty stringent conditions have to be met before that makes sense,” Boothe emphasized. It was only important for government to get involved in the affairs of private business, he elaborated, when the impact of not getting involved had a much broader reach for the economy—a systemic important impact for the broader economy.

He praised former Prime Minister Stephen Harper for recognizing that having Chrysler and GM fail, especially to have them fail in Canada and not in the United States, would have been catastrophic for employment and the broader auto industry in the country, and he lauded Harper for having the courage to take the necessary steps to prevent that. Supporting the rescue “was not a popular measure. . . . It was not the ideological sweet spot for the conservative government at the time to be lending money to private companies,” said Boothe. But the situation was unclear, and the government took steps to protect the taxpayers’ interest, he noted.

This is money that is the last resort. During the Global Financial Crisis, financial markets were paralyzed. You couldn’t borrow money at any rate of interest. Governments had to step in. The restrictions were severe on GM and Chrysler and the suppliers, including changes in management. Not only that, [but] loans were given at penalty rates of interest.

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