YPFS Lessons Learned Oral History Project: An Interview with Paul Boothe

Paul Boothe
Mary Anne Chute Lynch

https://elischolar.library.yale.edu/ypfs-documents2/3980
Introduction:

The Yale Program on Financial Stability (YPFS) interviewed Paul Boothe regarding his work during the Global Financial Crisis as Canada's Senior Associate Deputy Minister of Industry (2007-2010). Boothe, led the Canadian federal government's negotiation team during the restructuring negotiations with Chrysler and General Motors (GM). He also negotiated with the Canadian Auto Workers [CAW], which included the tier-one auto parts suppliers for all the major auto manufacturers worldwide. Canada aligned with the United States government to rescue the auto manufacturers and provided twenty percent of the funding to rescue the corporations and suppliers. Prior to the Global Financial Crisis, Boothe served as the Associate Deputy Minister of Finance and the Group of Seven (G-7) Deputy for Canada (2004-2005), and, later as Deputy Minister of the Environment (2010-2012).

Boothe was awarded the Order of Canada, Canada's highest civilian honor in 2016 for his contributions to shaping Canadian economic and fiscal policy. He currently teaches in the Executive program at the Ivey Business School, Western University in Canada.

This transcript of a telephone interview has been edited for accuracy and clarity.

Transcript:

YPFS: The effects of the Global Financial Crisis in Canada were milder than in the United States and Europe. When did you see the crisis beginning, and what was your response in Canada?

Boothe: This was 2007-2009. I joined Industry Canada in July 2007. My title was Sr. Associate Deputy Minister. That's like a Deputy Secretary of Commerce maybe, only I wasn't the top; I was next to the top. We were starting to see changes in financial markets. And previously, I had been the G-7 Deputy for Canada, and

---

1 The opinions expressed during this interview are those of Mr. Boothe, and not those of any institution with which he is or has been affiliated.
2 A stylized summary of the key observations and insights gleaned from this interview with Boothe is available [here](#) in the Yale Program on Financial Stability's *Journal of Financial Crises*. 
so had seen the big increase or growth of so-called financial market innovations at the time. Early on when I joined Industry Canada, the storm clouds were on the horizon. But the truth is that we were more focused on other files. We had a big expansion of the telecom spectrum that we were also involved in and a number of other big files. Although the clouds were on the horizon in 2007, it wasn't until 2008 that things really started to move to the top of the government’s agenda.

I think what really brought it into focus for us was the whole train of events that included Lehman Brothers, Bear Sterns, et cetera, because we monitor the activities of big employers like the auto industry, the five big auto manufacturers in Canada. We knew that they had a lot of financing to do. Not so much Toyota and Honda. Ford, either by good management or good fortune, completed their refinancing before things seized up. But we knew as soon as things started to seize up, that this was going to be a big problem for GM, and especially for Chrysler, because Chrysler was already troubled.

YPFS: Did you take steps within those companies in Canada beforehand, or it wasn't until everything blew up?

Boothe: We had a pretty close liaison with all the auto manufacturers in Canada. And so it wasn’t that we took any particular steps. We started to pay more and more attention, but it wasn’t until near the end of the [former President George W.] Bush administration that things basically ramped up. And the channel for that was actually from the US Treasury to the Canadian Department of Finance. That was all about financing, and were these companies going to be able to roll over their short-term debt, and what we’re going to do about it? In Canada, the way things are divided up, immediately, Industry Canada, which is responsible for manufacturing, was brought into the picture.

YPFS: That was my next question. When did you get involved with the United States?

Boothe: We became involved towards the end of the Bush administration. I have to say, the systems of government are very different in the two countries. I was a permanent public servant. The Bush senior Treasury officials were basically packing up to go. It was well after the election, but they were staying late and working hard right over the Christmas holidays to keep these companies afloat. We were dealing with them on a daily basis at that time. I was very impressed by their dedication to the task. It was very nonpartisan public service on their behalf.

YPFS: That's a very interesting point of view. After the 1985 collapse of the Northern Bank and the Canadian Commercial Bank, the Canadian regulations were tightened, which kept your banks from the risk of
insolvency like we had in the United States during the Global Financial Crisis. What were those regulatory standards, and how did you get those enacted? Were you involved in that process?

Boothe: It is more the nature of the differences in the two industries, banking in the US and banking in Canada, than regulatory differences. Canada has five big banks and maybe a few small ones, whereas the US has quite a large number of banks, some big ones, but quite a large number of banks.

The other thing is the treatment of mortgages. Typically, Canadian banks lend money for mortgages, and then hold the mortgages for the lifetime of the debt, so there was none of this securitization or very little of this securitization of mortgages. I got the sense that people lost track in the US of the kinds of risks that they were facing as these more and more complex financial instruments were being developed.

In Canada, basically big banks manage their own portfolio of mortgages. Often, or almost always, the people they were lending to were also depositors. They knew a lot about them. There was no subprime issue in Canada. I think that was the biggest thing. I think also there was a much closer relationship between the five big banks, because there are only five, and the Bank of Canada and the financial regulator, in terms of what kind of reserves were required, especially in the housing market.

YPFS: Were those requirements there before that 1985 problem? Or do you think if that had not happened that maybe they would have had the same problem?

Boothe: No. I think that they were largely there before 1985. Those banking collapses were largely energy related. Those banks were both Western Canadian banks, and their portfolio of loans was geographically concentrated in Western Canada. We went through a big energy crisis at the time, energy crisis in the sense of declining prices, which is a crisis when you’re a producer. A whole bunch of their loans went underwater. Basically, there were forced mergers of those banks with other banks, which the Bank of Canada typically does on the rare occasions that there are banks in very serious trouble.

YPFS: As the lead negotiator going into the negotiations with the auto industry and the US government, General Motors [GM], Chrysler, the suppliers, the unions, whom did you work with or negotiate with? Could you describe that process?

Boothe: As I’m sure you know, we were twenty percent partners, and the US Treasury was an eighty percent partner; we were junior partners. It was related to the shares of production, the historical or traditional shares of production. Canada had a larger share of production than its sales, although over time, Mexico had been growing. Our share of production was about twenty percent. I wasn’t
privy to these conversations, but this was decided between the White House and the Prime Minister's Office in Canada, with some advice from officials. That was not something that we spent any time negotiating.

The person that I worked the most with, pretty much on a daily basis throughout the period, was Ron Bloom. He was my main contact. What was interesting to me was that because Industry Canada had a long period of dealing directly with the auto industry and regular contacts with them, we knew a lot about Canadian production, how cars were made, supply chains, all that stuff. We were the car experts. But the US Treasury team—a lot of them were brought in to deal with this for [former] President [Barak] Obama's [Auto Task Force] Team—they were bankruptcy experts. They were bankruptcy and financial market experts. They had a lot of expertise there that we didn’t have.

But Ron Bloom, especially, had been through a number of restructurings, not just autos, but other industries. And he was very good at that. Whereas our guys were focused on what’s the nature of the undertakings, as we call them. What are they going to promise us? And the review of the business plans, that was really our strength.

We met with Bush officials at the end [of his term], and that was basically about interim financing to keep the companies afloat for a while. But the Bush officials were clear that the actual restructuring of that, whatever was going to be required, was the job for the Obama group because they were the ones that had been elected. They [the Bush officials] were careful not to encroach on them or encumber them if they could avoid it.

We had a few preliminary meetings with the US Treasury team as soon as it was developed. We introduced ourselves. Because I had been G-7 Deputy, I had some contacts in Treasury and worked through my Department of Finance colleagues as well. Pretty soon we got right down to it.

First, we negotiated with Chrysler, and we had teams going back and forth to meet with the US Treasury and with Chrysler. Of course, it wasn’t just Chrysler at the time. Chrysler was, I think, by that time owned by Cerberus [Capital Management], the hedge fund, and Daimler [Daimler-Benz auto company] was still involved at that stage. We met with them and negotiated with them, and, of course, tried to make sure, I think pretty successfully, that there was no light between us and US Treasury.

YPFS: No light. What do you mean by that?

Boothe: We knew what one another were doing. Anything that might be controversial between the two countries, we discussed it before we went in [to negotiations]. We wanted to present a united front to the companies.

Boothe: Did you work with the people from GM and Chrysler?
Boothe: Sure, and also Fiat.

YPFS: How did you find that? There have been reports about GM being in denial or not in-tune with what was going on in the industry.

Boothe: The two companies were very different. By the time we began negotiating, Chrysler was in the hands of Cerberus (as owners) and Daimler-Benz (as production partners), and both were looking to exit their relationship with Chrysler. Our discussions with them were largely with Fiat in the room, including the head of Fiat at the time, Sergio Marchionne. He was very impressive, very impressive. He had recently been through a big restructuring of Fiat, which had been in a similar, very serious situation like Chrysler. He had strong views about where he would take the company. We found Fiat very—I won't say easy to deal with—but very straightforward and very clear. They knew what they needed, and they were not resistant to big changes.

General Motors still had much of the existing senior management in place. At the outset, there was a sense that they were unlucky, they had already begun a transformation of the company, and it was only because of the freezing up of the financial markets, that they weren’t able to complete their refinancing. And if they had been able to refinance normally, everything would have been okay.

Our sense was that they weren’t thinking about radical enough change to save the companies. The first business plans that they presented to us and US Treasury, were analyzed separately and then we discussed them, because they had US elements and Canadian elements. We rejected those plans. My sense of General Motors was they were not in a mindset where they were going to do a complete overhaul of the company, and reduce the number of name plates, such as Pontiac, and the number of closures that would be required. They needed to be more ambitious, more aggressive, in their restructuring of the company than they initially believed.

YPFS: Did you find those negotiations difficult?

Boothe: Yes, both hard physically—they were very demanding—and it was relentless. There were no holidays, and certainly, not just for me, for our teams, because we had teams that would go to the US, either Washington or to New York in the case of General Motors negotiations. But we also had teams working in Canada as well, lawyers, financial analysts, et cetera. It was very stressful because the Government of Canada at the time was a conservative government, which conservative in Canada does not mean the same as conservative in the US. It’s probably like a conservative Democrat would be.

YPFS: How do you define conservative in the US?

Boothe: I would say, and I’m not a political scientist, but that the spectrum of political views, both on the right and the left in the US, is wider than in Canada. It’s more
tightly focused on Canada. In any case, it was not the ideological sweet spot for the conservative government at the time to be lending money to private companies. They weren’t keen on that. But I think the Prime Minister understood that the potential fallout of having these companies fail, especially fail in Canada and not in the US, would be catastrophic for employment and the broader auto industry in the country.

**YPFS:** What did you think of them going into the bankruptcy?

**Boothe:** 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.

To give you a little vignette—bankruptcy was to start on a given day, and the President and Prime Minister were scheduled to make an announcement shortly afterwards that day. And it was not until the small hours of the morning that we finally tracked down all the bondholders and got them to agree to quite a severe haircut, that we were able to have all the signatures that we needed in order to go to bankruptcy court at eight in the morning. That was, for me, very stressful as a public servant.

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.

**YPFS:** What about the part suppliers?

**Boothe:** Absolutely. I’m an economics professor by training, and one of the things that became clear to us, and what was very compelling to the Canadian government, was we discovered that our tier-one-parts suppliers were what we called diagonally integrated. It’s quite common to talk about vertical integration of industries or even horizontal integration, but what we found was the top four or five tier-one suppliers supplied all five of the manufacturers. If GM and Chrysler had gone bankrupt through a disorderly bankruptcy, then that would have cascaded onto those suppliers. And those suppliers would not be able to meet their commitments to the three big companies, Honda, Toyota, and Ford, that did not go into bankruptcy, but it would still cause the basic production to stop in those companies as well.
That was very compelling to us—why we needed to support GM and Chrysler through bankruptcy. But also, we had to provide support to our major tier-one suppliers, through floor plan financing (inventories of vehicles and parts), tooling, and all that. We used a government vehicle, Export Development Canada, to provide support to the tier-one parts manufacturers in Canada, as well, as the US Treasury did in the US.

YPFS: You were doing one-hundred percent support or twenty-percent support for the suppliers?

Boothe: We did one hundred percent for the Canadian suppliers.

YPFS: Were you involved with the suppliers in the US, or did you keep that separate?

Boothe: Not substantially. Ron Bloom and the US auto team kept me apprised of what they were doing, and I did likewise, so that we didn't get cross threaded in terms of what we were doing. I can remember listening to how they were dealing with Delphi and other big parts suppliers, but I was more a spectator to that.

YPFS: Where do you think the challenges were, and what do you feel were the successes?

Boothe: There was a huge amount of uncertainty. There was no living memory in Industry Canada 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, [former National Economic Council Director] Larry Summers, and [former Treasury Secretary] Timothy Geithner, about which of those undertakings would be appropriate for the US to talk to GM about.

YPFS: How big was your team that you were leading?

Boothe: Negotiators, there were probably ten, and another twenty or so analysts. The ten, we called the away team because the away team would go to the US, and typically, I would go with the away team. The home team were the financial analysts and industry experts in Canada. There were a number of Department
of Justice lawyers. All the lawyers who worked for the government in Canada are normally Department of Justice lawyers. We had a team of five or six Justice Department lawyers, and they had some private legal sector consultants. Not the size of one of the US teams [of legal consultants], which was a massive team, but we did have outside lawyers as well. From a Canadian point of view, it was a big team, but I was very impressed by, not only the people on the core US auto team, but how few of them there were.

There was Ron Bloom, Brian Deese [economic advisor to President Obama], Clay Calhoun [member of US Auto Task Force Team], especially for the Chrysler negotiations when we were learning by doing. They were there all the time, and they were very sharp in terms of the financial details. These are very complex, remembering all these numbers when things are shifting around.

We had people on our team whose job was just to keep track of the numbers. They would sit and listen and take notes, and sometimes, when there were disagreements with the companies, we’d go back and say, "Well, yesterday, you said it was this number, not that number." It was stressful. Often it was the middle of the night when you’d say, "Well, wait a second. That doesn’t sound right to me. Let's go back to our notes." But luckily, we had both our note-takers and the US Treasury note-takers there. They would compare notes, and we were able to keep things on track.

YPFS: Were there things you would have liked to have seen done differently or that didn't get done?

Boothe: I would step back a few years to when I was a G-7 Deputy and going to Financial Stability Forum meetings and listening to all this talk about financial innovation. I wish we had paid more attention to the risks then, because I think, this is just my own view, that the whole business of securitization and the subprime lending and all that was a regulatory failure.

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 theirs was. 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 problems.

YPFS: Did you view that as a risk in the beginning when you were with the G-7, and those things were being discussed?
Boothe: The financial innovation was being discussed. But I can remember I used to sit next to Alan Greenspan [former Chair of The Federal Reserve Bank], 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.

YPFS: You didn't see that it was going to be such a disaster at that time?

Boothe: I wish I had, but I did not. The Governor of the Bank of Canada at that time, David Dodge, was one of the few people who was saying this whole expansion of mortgages and securitization of mortgages in the US is a big risk, and people don't seem to be getting onto that. I guess, I was sticking a little too close to my knitting, and I said, 'This isn't happening in Canada, so this isn't a big worry for me.' But if something happens in the US, it is a big worry for everybody in terms of financial markets. I don't know that I could have done anything about it, but certainly that's one of the things that began this snowball rolling down the hill.

Initially, when the Prime Minister made his announcement about this, we gave a bunch of loans and we got some equity, and the press' question was always, 'how are you going to get paid back?' And the Prime Minister said, 'We're not counting on being paid back at all. We're doing this to save this industry. And that's because it's important for the overall economy.' The Canadian economy is regionally very different. Western Canada is very oil, gas and agriculture. Central Canada is manufacturing, et cetera. Especially when he was elected from Western Canada, this was not a popular measure there. But he initially said, 'No, we don't expect to get any money back. We're not counting on that. This is why we're doing it.' That got lost. And initially, the government of Canada booked it in the public accounts at zero. When things started to improve, the Canadian Auditor General, which is an independent auditor of Canadian finances, came back and said, 'No, that's not appropriate. You should have valued it at this.' But that was with 20/20 hindsight.

I was surprised and gratified by the amount of money that actually was recovered. I can't remember how much, but it was quite a large proportion of the total amount that went out. And remember, the loans, the ones that weren't forgivable, those loans carried quite a high penalty rate of interest at that time because they were debtor-in-possession financing through a bankruptcy. I was gratified by that.

Also, I think that we were able to keep a lot of people on both sides of the border employed, which was ultimately the thing that we were interested in, although both we and US Treasury agreed that none of our undertakings
would be about employment. Production, yes, but not employment because if we started to have undertakings about employment, then we would be hampering the companies' ability to make improvements that would improve their productivity. Maintaining production saved a lot of jobs. This was 2008-2009, now more than 10 years ago, and the industry has continued to evolve. It's a very different industry now. I think overall it was a pretty successful policy, especially given that we had never been through it before. Of course, I would say that because I was involved in it, but I think that would be a fair assessment. The only other thing that I would mention that we haven't talked about, and that is the role of the unions.

YPFS: **Before we move to unions, did you have to go and hard-sell this package to the Prime Minister?**

Boothe: We can never reveal our advice to the government, but the way it worked, in general terms, was the big selling job was at the beginning, and that was the necessity. Next would be to build the box, and decide what is your negotiating box that you’re operating in? We had two principles that helped us build the box. One was that we would be proportional, or parallel and proportional to the US, our eighty-percent partner. That means our contribution to the overall package would be twenty percent of whatever the overall package was. It ended up being bigger than we initially thought, as always. Parallel [means] we would have the same kind of instruments and the same kind of risks that US Treasury took, so that we were real partners, even though we were the junior partner. The other point was that we would maintain our production share in Canada. That's why we were doing this, because another big partner, not partner, but participant in this, was Mexico. They were not able to participate at all. They had no resources, so basically it was between the US and Canada. It was agreed that 80/20 would go forward, and we knew that saving Chrysler and GM globally meant that there would be benefits for Chrysler and GM in Mexico. But we decided that we weren't going to worry about that.

YPFS: **Did you have a timeframe in mind? It happened very fast.**

Boothe: One of the things that was driving us was the schedule of refinancing of existing debt, because as soon as there is a default, then ready or not, you’re into a bankruptcy over which you have little control. It was really driven by the schedule of maturing debt, and that’s why we had to move as we did, at the speed at which we did. You can’t let these things drag out. The GM negotiators, initially and throughout the process, did not feel that the scope of changes that we were proposing were absolutely necessary. But it was important to say, 'We're on the clock. We have to get a decision here. The alternative is disorderly bankruptcy.' You have to focus your mind on this. In negotiations, you always ask the question is time my friend or my enemy? Our view was time was our friend and the enemy of the companies, because the consequence
of missing refinancing was default and, therefore, disorderly bankruptcy. Then, those companies would have been chopped up and a bunch of big suppliers would have failed, and it would have been a big mess.

**YPFS:** You wanted to mention the unions also?

**Boothe:** I wasn’t involved in the discussions with the United Auto Workers [UAW]. Ron Bloom kept me apprised of those, but, certainly in Canada, [with] Ken Lewenza, the head of what was then called the Canadian Auto Workers [CAW], now called Unifor. He had already gone to his members a couple of times in the previous twelve months and asked for concessions. To send him back again for another even larger round of concessions, I found to be a weak point for us, because I’m not sure that you can convince the membership.

For better or worse, these union leaders are elected like the Americans elect the President. Everybody gets to vote, and all these members get to vote, and, therefore, they have to be convinced that these concessions are essential. This was very tough, and the negotiations between GM and the union, and Chrysler and the union, were protracted and very difficult. The way unions negotiate is with 20 negotiators, and they go away, and they caucus back and forth, and they play good cop, back cop. It’s very complex because of the way that they negotiate contracts with companies. Every so many days, they would come back to me and say, ‘We just can’t do it. Is this good enough?’ Basically, we were saying, ‘You need a package that brings you in line with Toyota Canada,’ for example. Especially with the unfunded pension liabilities, Chrysler or GM was just shy of $100 CAD an hour of total compensation. We needed them to get down to just under $60 an hour to be parallel with Toyota and Honda in Canada. As you can imagine, it was very difficult. Every time they would come back, I’d have to say, ‘I appreciate you guys are working hard on this, but I’m never going to be able to convince our political masters, if I cannot tell them, honestly, that you are parallel with Toyota Canada, and have reached this level.’

Finally, they did it, and the union leadership had to go and sell this to the members. This was a part of the negotiations, which was outside the dealings directly with the companies and with US Treasury, but it was very, very tough. I give a lot of credit to the union leadership which actually got that to happen.

**YPFS:** Did you get support from Ron Bloom on that? He had worked heavily with unions.

**Boothe:** I got a lot of advice from Ron throughout the process because he had been through this, especially in the dealings with the unions. He had been through several negotiations with unions and been on the union side in negotiations. His counsel was always ‘patience, hang in there, don’t cave in.’ He was right,
and I found that very helpful. I became, over the process, good friends with Ron Bloom and have tremendous respect for him.

YPFS: What do you see as similarities and differences in the economic situation during the Global Financial Crisis and the COVID pandemic?

Boothe: I think we’re in the midst of a traditional slowdown, maybe just at the beginning of a traditional slowdown. But this is going to be monetary policy driven. I think it’s true that interest rates had to be very low in COVID, and governments had to spend a lot to get us through that. I’m not sure, and this again is just my own opinion more as a former financial official than an Industry Canada official, but I’m not sure economic historians will look back and say, ‘Oh! It was a great idea to keep interest rates so low from the end of the financial crisis through to now.’ It led to a big run up in the values of real assets like housing. Canada has had an enormous run up in housing prices, and the stock market. Ultimately, that exacerbates inequality, puts more pressures on society. Be that as it may, I think the slowdown we are facing now is one that we understand better, and we know it’s more of a traditional monetary-policy-driven slowdown, although we haven’t really slowed down yet. I might be missing the boat.

Back in 2008, 2009, we didn’t understand what was going on. In the book *This Time Is Different: Eight Centuries of Financial Folly* by [Carmen M.] Reinhart and [Kenneth S.] Rogoff, which looks at financial crises back to the tulip crisis and compare with what happened in the Global Financial Crisis 2008-09. middle class Americans had their mortgages go underwater and lost their houses. Some of those mortgages were used to finance the college education of their children. The only thing that you can do when you’re faced with that situation is hunker down and stop spending and save your way out of it. That’s very tough. That’s why you had a very slow recovery from the financial crisis. Now, stock market asset holders will have a hit. And if you have a big mortgage, you may be in trouble when interest rates rise, but it’s not going to have the same impact. We know what to do, and we know the dangers of not doing something and letting inflation get out of control.

YPFS: You wrote in “The Financial Post” in June 2020, three lessons learned from the Global Financial Crisis that current policyholders should keep in mind post-pandemic. You warned the government not to jump in and give money to companies, and for companies not to seek government aid without similar, severe restrictions and changes in management that the US imposed on GM in the Global Financial Crisis. Would you still employ these lessons?

Boothe: My views on that haven’t changed. The government of Canada made a lot of money available to big companies in 2020, and not very much of it was taken up. I think it was, in part, because of the conditions that were put on it. 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.

Throughout the pandemic, financial markets continued to function, and interest on corporate bonds was not at penalty rates by any means. My question was do these companies really need government support, which I believe should be only as a last resort, or is [government support] more attractive than private sector financing? Depending on which, I don't think government should be involved in the latter case.

YPFS: That was one of your other lessons in the article. Government should not get involved unless a failure would have a huge impact on the broader market, not just one company failing.

Boothe: That's right. I mentioned this idea of diagonal integration. It wasn't just that GM and Chrysler in Canada would fail. But because of the impact on tier-one parts suppliers, the other manufacturers would fail. It was interesting. that, at that time, Toyota, Honda, and Ford all supported the support that we gave for Chrysler and General Motors because they understood the impact on their tier-one suppliers. They would have been in huge trouble without the parts suppliers. Basically, they said, we support this. We're not going to be complaining about it. Go and do your work.

YPFS: Are there any other sectors that you see as vulnerable now?

Boothe: During the pandemic, I wondered about the travel and hospitality sector and how that would be affected. In some countries, for example in Germany, Lufthansa got an enormous amount of government support. Some [was given] in Canada, but not that much. Canada only has two big airlines; its very concentrated. The airlines are apparently forecasting ninety percent of their pre-pandemic volumes for the coming summer. It’s security screening, customs and immigration, and bottlenecks in airports that is all the talk in Canada right now. I had thought that sector would be very vulnerable, but they've done much better than I thought.

Even though these big companies didn’t take direct loans from the government of Canada, the government of Canada did provide to all companies, big and small, some wage subsidies that prevented some layoffs, and some support. But mostly they went directly to workers, and that cushioned the blow. We had some of the traditional labor hoarding going on. Companies were keeping not-fully-employed people on the payroll in anticipation of the revival of the economy. I’ve been positively surprised with the way the economy has responded. We’re at a very low rate of unemployment in Canada now, and the
same is true in the US, but the US handled it very differently in terms of getting the money to workers.

YPFS: Could you talk about those two systems, and why yours worked better?

Boothe: I don’t know that ours worked better, but it was different. People had to apply for this money. They had to show that they had been laid off, and the money is taxable. If they ended up going back to work and making a lot of money, it added to their total taxable income, and the government responded and got some of that back. Companies had to show that they had declines in revenue of some proportion before they could access this wage subsidy money. My understanding of the US approach was it was more broad brush. We’re going to send out these checks. We’re not going to do all this checking on the individual financial circumstances.

YPFS: Do you think there are any other lessons to be learned from the Global Financial Crisis for future or even current policymakers?

Boothe: A lot of work was done, especially by my colleague, Tiff Macklem, in the period following that, to try to have more global financial oversight of systemically important financial institutions’ stress testing going on in the US and Europe and Canada. I don’t think that the rules went as far as they’d hoped to go, but I think they made some progress. You never go as far as you hope to go. It’s the nature of the process.

The other lesson that I took was that there are times when it is important for government to get involved in the affairs of private business, but only when the impact of not getting involved has much broader reach for the economy. We had a very large bankruptcy in Canada when I was at Industry Canada, in the Telecom sector, with Nortel, which was at one time, the biggest company on the Toronto stock exchange. Ultimately, the government of Canada did not provide any financial assistance at all, and it went into bankruptcy, and eventually was restructured. I think the reason, not speaking for the politicians, my own view, was because it wasn’t systemically important for the broader economy. It wasn’t diagonally integrated. It had a vertical supply chain. We let the normal market process work it out. There are times when governments need to get involved, but pretty stringent conditions have to be met before that makes sense. I think that was the rationale, and we didn’t see a big economic fallout from the bankruptcy of Nortel. [It was] very difficult for Nortel employees and pensioners, but not more broadly.

At Ivey Business School, I teach an executive education course for senior public servants. The kinds of challenges that they have are a little bit different than the ones that I had to deal with during my career.

When you think about some of the incredible things that governments around the world, certainly in the US and Canada, had to do, like the whole work from
home, how they managed that, and ramping up the whole COVID technology, respirators, masks, face shields, all that that had to happen. The tremendous progress on developing vaccines, and the support that governments gave for that—there are a lot of big successes by the public sector around the world in this.

Suggested Citation Form: Booth, Paul. 2024. “Lessons Learned Interview by Mary Anne Chute Lynch, May 9, 2022.” Yale Program on Financial Stability Lessons Learned Oral History Project. Transcript. https://elischolar.library.yale.edu/ypfs-documents2/3980

Copyright 2024 © Yale University. All rights reserved. To order copies of this material or to receive permission to reprint any or all of this document, please contact the Yale Program for Financial Stability at ypfs@yale.edu.