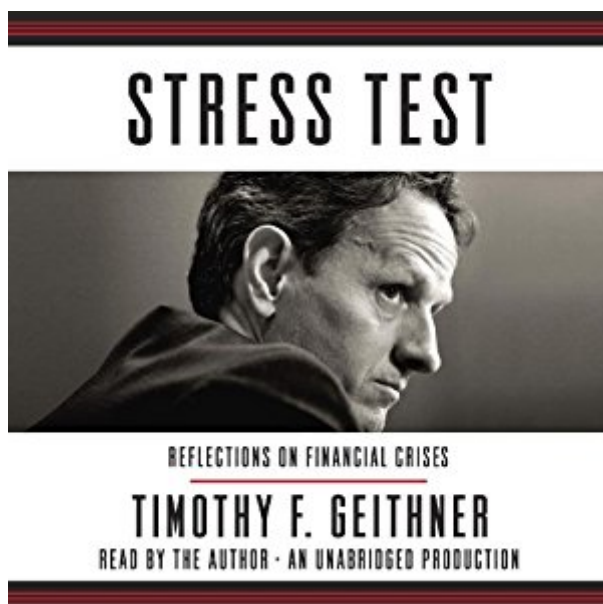


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# Stress Test: Reflections On Financial Crises



## Synopsis

From the former Treasury Secretary, the definitive account of the unprecedented effort to save the U.S. economy from collapse in the wake of the worst global financial crisis since the Great Depression. On January 26, 2009, during the depth of the financial crisis and having just completed five years as President of the Federal Reserve Bank of New York, Timothy F. Geithner was sworn in by President Barack Obama as the 75th Secretary of the Treasury of the United States. Now, in a strikingly candid, riveting, and historically illuminating memoir, Geithner takes listeners behind the scenes during the darkest moments of the crisis. Swift, decisive, and creative action was required to avert a second Great Depression, but policy makers faced a fog of uncertainty, with no good options and the risk of catastrophic outcomes. *Stress Test: Reflections on Financial Crises* takes us inside the room, explaining in accessible and forthright terms the hard choices and politically unpalatable decisions that Geithner and others in the Obama administration made during the crisis and recovery. He discusses the most controversial moments of his tenures at the Federal Reserve Bank of New York and at the Treasury, including the harrowing weekend Lehman Brothers went bankrupt; the searing crucible of the AIG bonuses controversy; the development of his widely criticized but ultimately successful plan in early 2009 to end the crisis; the bracing fight for the most sweeping financial reforms in 70 years; and the lingering aftershocks of the crisis, including high unemployment, the fiscal battles, and Europe's repeated flirtations with the economic abyss. Geithner also shares his personal and professional recollections of key players such as President Obama, Ben Bernanke, Hank Paulson, and Larry Summers, among others, and examines the tensions between politics and policy that have come to dominate discussions of the U.S. economy. An insider's account of how the Obama administration saved the economy but lost the American people, *Stress Test* reveals a side of Timothy Geithner that only few have seen.

## Book Information

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## Customer Reviews

I only read half of "Stress Test." It's a well-written and interesting book, with insider details on the Bear Stearns bailout and the collapse of Lehman Brothers. Since publishing it, the author, former Treasury Secretary Tim Geithner, has gone into the private equity business. Geithner was one of the top banking regulators in the U.S. in the run up to the financial crisis. As such, he bears much of the blame for the global carnage unleashed by Wall Street. However, his book sure doesn't come off as a mea culpa. It is strangely non-reflective (or at least the first half isn't). Though Geithner plainly disliked politicians and fellow regulators, he never gets really angry about the waste and insanity of the U.S. financial system, which allowed a handful of under-regulated banks to pile up leverage in a quest for super-profits. Instead, Geithner tells the comic book story of how he, Ben, and Hank saved the world by restoring "confidence" in the banking system, just as the IMF and the U.S. Treasury restored "confidence" in Asian banking during the crisis of the 1990s. Geithner has nothing but scorn for the "moral hazard fundamentalists" who tried to get in the way of bailouts for reckless institutions. Maybe he had the better arguments on the immediate policy debate, but his anger seems misdirected, or at least very selective. He's written a book of history yet he always misses the big picture.

It seems to me that there are three overriding issues that need to be discussed when considering the monetary meltdown of 2008. Those questions are: 1. What caused the markets to fail? 2. Was government's response to the failure effective? 3. How can future failures be prevented? In "Stress Test", Timothy Geithner sort of addresses all three questions. In his view, a long period of overconfidence about the housing market's ability to deal with risk led to "mania". New and exotic "derivative" security instruments built out of mortgages that had been "sliced and diced" beyond recognition, and then "insured" against any possible loss by AIG gave investors, lenders and regulators a false sense that risk had somehow been eliminated from the mortgage business. As President of the most important regulatory agency in banking, The Federal Reserve Bank of New York from 2003-2009, he downplays his role in encouraging this "manic" period, saying that he was concerned about increasing risk and said so, but his concerns were largely ignored; and since he

was only a regulator, and the banks he regulated (like CitiGroup and Chase) were not major players in home mortgages, what else could he do? Right. When I opened the book, I hoped this well-placed guy who was present for the constant regulatory projections that markets were healthy and would continue to grow would provide insight as to how the regulators could have jumped on the lending bandwagon in such a big way; but he doesn't. He does comment that there are too many regulators regulating overlapping industries, and hints that regulators are too close to the industries for which they are responsible, but, beyond that, Geithner seems to be at a loss.

Timothy Geithner opens the book with an anecdote on how his poor communication skills resulted in a bungled press conference in the early days of the Obama administration which led to additional market instability. Geithner is unusually honest in his own self-assessment and in recognizing how important the soft skills such as communication were to his job. As a famous politician (well, small town mayor) once said - "a good man knows his limitations". Geithner is quite self aware, in terms of his predilection for policy substance over press release form as well as his suitability for regulatory work over investment banking riches. This self-awareness informs his telling of the Global Financial Crisis from an insider's perspective. It is refreshing, therefore, to read a book on a complex subject that is clear and easy to read and understand. At the end of the day, all financial crises are borne of the panic that ensues from borrowing short and lending long and not having a sufficient capital buffer to weather the storm. However, the fog of the daily battle makes it challenging to develop a cohesive and consistent response to the many crises of the day. This book sets out a philosophy that guided the regulators through the maze and should be a guidepost for those managing our way through the next financial crisis. One of the key statistics mentioned is that the government spent about \$2 trillion in rescuing the financial system but generated a positive return of \$150 billion. The lesson of this financial crisis (as well as military crises as Colin Powell famously noted) is that a response of overwhelming force is the most effective way to win and the cheapest long term solution.

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