# Crisis Management Leadership

Timothy Geithner, United States Secretary of the Treasury 2009-2013; President, Warburg Pincus

"It was a terrifying crisis," said Former United States Treasury Secretary Timothy Geithner. "We felt, as I know that people did around the world, that we were falling into the abyss." On the first day of the 2015 World Knowledge Forum, at a session titled Crisis Management Leadership, Mr. Geithner discussed how he helped guide the United States out of the 2008 financial crisis and what world economies in transition can learn from the events that followed that crisis.

Mr. Geithner emphasized that the United States recovered from the financial crisis much more quickly than most other countries. "It was very, very quick in the arc of history," he said, "but at the time it felt like forever."

Because there was "no clear playbook" for how it would work, he agreed with President Franklin Roosevelt's assertion during the Great Depression that what the country needed was persistent experimentation.

Mr. Geithner also noted the structural differences in the United States government that allowed them to be successful in recovery. One advantage, he said, was that the Federal Reserve, the United States' central bank, acted mostly independently of politics, so it could operate in the long-term interest of the economy, rather than short-term political interests.

"Generally, the world has had a bad experience with regimes in which politicians are given…the capacity to influence the choices that the central bank makes," he said.

In addition to being independent of politics, he argued that the role of central banks should be relatively small.

"We want to attribute to central banks great power and great foresight and great knowledge, and I think that level of confidence, or level of hope, for what central banks can do is greatly exaggerated," he said. "Most of the challenges we face today are not challenges that can be solved by central banks and monetary policy."

Mr. Geithner also acknowledged that, while the United States had climbed out of its recession, much of the world economy was still in transition. He ascribed part of this to the unwillingness of some governments to make unpopular decisions about monetary policy.

"The actions that you have to take to break a panic and protect the average person in a financial crisis, they seem deeply counter-intuitive, politically dangerous, costly, and immoral to many people," he said. "They look like you are aiding the arsonist."

Luckily, Mr. Geithner said the problem is not one of a lack of knowledge. He argued that there is a wide gap between what we know about economic policy and what policies we enact because of the unpopularity of those policies when they are first brought up.

"The fact that we're acting short of the frontier of knowledge should make you hopeful," he claimed, because it means that there is an opportunity for governments to make the right choices, even if they have to do it in the face of political backlash.

Mr. Geithner also said that, despite the slow recovery, he perceives many of the world's economies to be in much stronger positions than they were in 2008.

Korea, for example, whom the United States had already helped guide through crises in 1997 and 2008, would be less susceptible to external shocks such as changing U.S. interest rates than they were before the crisis.

Mr. Geithner ended by reemphasizing that the burden of what will happen to the economies of the future will be based largely in policy. “What will happen in the future will not be based on central banks, but on what governments choose to do.”

“Faced with a lot of crisis and risk,” he concluded, “the typical instinct of the politician is to become more conservative, yet that’s a much more risky strategy in a crisis.”

Instead, the riskiest strategy is to take no risks at all.

Reporter: Ethan Blonder