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The Divisive Mr. Geithner

By Thornton McEnery

Timothy Geithner's stint as the 75th secretary of the Treasury ended Jan. 25 much like the way it began four years earlier, with parties on both sides of Wall Street and K Street fiercely divided over his performance. The divisiveness that surrounded his tenure now puts into question what Geithner's legacy will be, especially since many experts on the subject cannot even seem to agree on whether or not he should have gotten the job in the first place.

"Geithner was, without a doubt, the most polarizing nominee in recent memory," recalls Isaac Boltansky, vice president and policy analyst at Compass Point Research & Trading LLC. "It looked like the White House had blown it during the confirmation process."

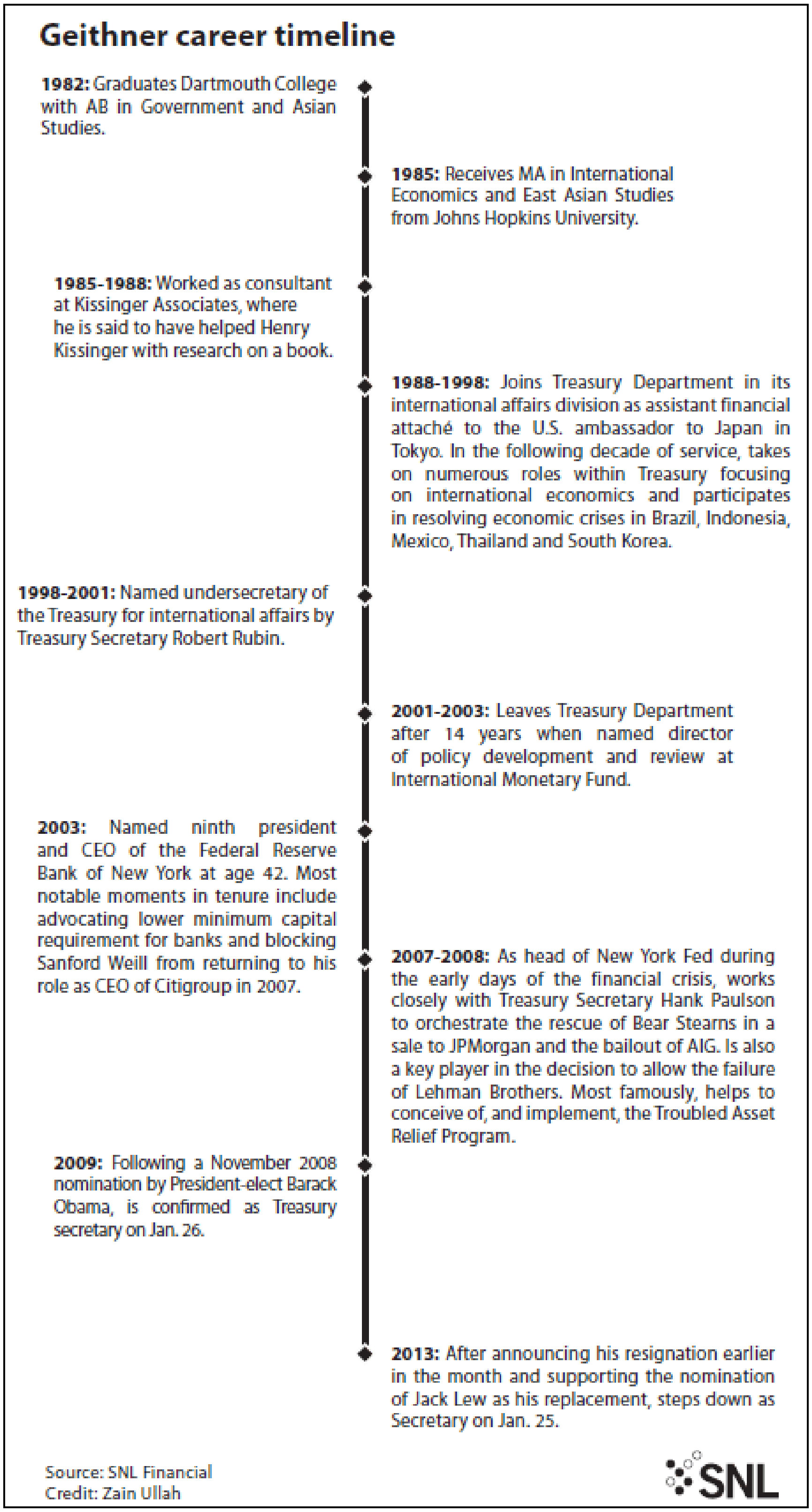
Despite his embattled confirmation, Geithner served four years at the head of Treasury during which he faced an unprecedented financial crisis, the near-collapse of the banking system, fiscal cliffs and debt ceilings. His decisions on seemingly every one of those matters, and sundry others, were met with derision from the same broad chorus of critics who opposed his nomination.

Perhaps the best example of Geithner's tormented tenure can be found in what is perhaps his signature program: the Troubled Asset Relief Program, or TARP. By implementing TARP, the private sector accused him of forcibly pumping public money into private banks, while opponents of the banks simultaneously condemned it for accelerating public debt in the service of a "too big to fail" mentality.

"He was an even more divisive secretary than a nominee," says Boltansky. "The left hated him for bailing out the banks, and Wall Street hated him for forcing TARP *on* the banks."

Outside of being conflict-ridden, Geithner's legacy remains enigmatic, but quite a bit of ink has been spilled in recent months trying to clarify it.

In a Jan. 24 Op-Ed column for *The New York Times*, financier Steven Rattner recounts a recent event held at the Treasury Department during which Rattner took a moment to peruse the portraits of former secretaries and muse on Geithner's potential legacy, asking himself, "Near great? Without a doubt. Great? Certainly warranted in my estimation."



Rattner's rhetorical exercise is one of many published in recent weeks that make attempts at categorizing Geithner's legacy, and many of those public ponderings have placed his stewardship of the Treasury in the rarefied company of Alexander Hamilton and Andrew Mellon in terms of its importance.

One commenter on that legacy is Sheila Bair, who served as FDIC chairman during a portion of Geithner's tenure as Treasury secretary, and paints an unflattering portrait of him in her book, *Bull by the Horns*. In Bair's telling, Geithner's decision-making at both the New York Fed and Treasury was strongly influenced by his focus on saving the large banks through infusion of public money, a philosophy that leads her to refer to Geithner as the "bailouter in chief."

Rattner and Bair represent just two voices in the quarrel over Geithner's performance. As more voices are taken into account, the murkier his legacy becomes.

"One major criterion to evaluate that position is how public finances improve during one's tenure," posits James Grant, the publisher of *Grant's Interest Rate Observer*.

Using that measure, the argument for Geithner's greatness runs into some heavy opposition. According to the Treasury Department's own data, the amount of debt held by the public on Jan. 26, 2009, the day of Geithner's confirmation, was $6.29 trillion. On his final day in office, Jan. 25, 2013, that number stood at $11.56 trillion, constituting an 83.8% growth in the public debt during his tenure, or an annual rate of 20.9%.

"That rate is faster than almost anything outside a genuine Major League fastball," says Grant, who points to TARP as a major cause of Geithner's negative impact on public debt and, by extension, the U.S. economy.

But even a subject like TARP can be seen as a critical piece of evidence in proving his efficacy as Treasury secretary, as well as a factor in his ascension to the role.

"In a time vacuum, without a financial system collapsing around him, Barack Obama does not make Tim Geithner Treasury secretary," says Boltansky. "He was in the room for the first TARP handout, no other viable choice could say that, and the White House needed someone that could operate behind closed doors like that."

In Boltansky's view, Obama, facing down the greatest financial crisis in 80 years before he even took office, was almost forced to nominate Geithner, as he had firsthand knowledge of the TARP program.

Stephen Myrow, managing director of ACG Analytics and a former chief of staff to the deputy secretary of the Treasury under Geithner's predecessor Hank Paulson, agrees in part with Boltansky's assessment of why Geithner was selected.

"The choice wasn't made *for* him necessarily, but [Geithner's] background in TARP must have been a big factor," Myrow says of Obama's decision. "But TARP was also a point of weakness during the confirmation, like his background."

Myrow's allusion to Geithner's background is another point of contention among his critics. The financial sector viewed Geithner's lack of traditional financial experience as a sign that he was a government careerist, while proponents of government intervention were often troubled by what they perceived to be his close ties to Wall Street in general, and his mentor, former Citigroup Inc. director and former Treasury Secretary Robert Rubin, in particular.

"He didn't have the traditional financial expertise," says Myrow, giving voice to one side of the argument. "He's simply not a financial institutions guy."

"His entire career up to that point was characterized by heavy public intervention on behalf of Wall Street," says Grant, encapsulating the latter argument and referring to Rubin as Geithner's "paymaster."

But that widespread distrust of Geithner as he took over at Treasury was a blessing in disguise in the opinions of Boltansky and Myrow, who both say it allowed the more trusted voices within the administration to push their agendas while the new secretary executed his strategy in relative anonymity. "That made him the only one who could straddle that divide and accomplish anything," says Boltansky.

"He kept the populist forces in that administration at bay, and potentially staved off many bigger problems as a result," says Myrow referring to Geithner's lack of natural allies in the White House or the private sector. "He executed the bailout while successfully fighting off [OMB Director Austan] Goolsbee on the automotive industry restructuring, [National Economic Council Director Larry] Summers on nationalizing the banks, and in my opinion, he turned out to be correct on all fronts."

Myrow believes that evidence of Geithner's increasingly influential opinion on issues such as the automotive bailout and government takeover of private banks can be seen in his increased access to Obama and the decreased role of other key advisers. Both Myrow and Boltansky make specific mention of Summers as a casualty of Geithner's internal rise within the administration.

"Early on, Summers was the loudest voice in the room," Boltansky says of the prominent advisory role taken by Summers just after Obama's election. "That gave Geithner time to settle into his own role and get a grasp on the situation."

"He gained Obama's trust," concurs Myrow, who points out that after Summers left the administration in December 2010, Geithner's increased power was reflected in the more measured approach the White House took on economic matters like his last major negotiation on the fiscal cliff and the "Bush tax cuts," which he had publicly opposed.

But as was the case with Geithner's tenure, the experts SNL spoke to could not agree on the keys to understanding his legacy, and in fact failed to even concur on whether it will be viewed positively or negatively.

"He's going to be remembered as a defender of those massive bailouts for major banks and as a steward of unprecedented public indebtedness," Grant asserts.

Boltanksy sees it differently.

"Let's not forget TARP was a vestige of the Bush/Paulson regime," he notes. "Everyone knew debt was going to grow under this administration as a result of what they inherited, and someone like Geithner was needed to keep his head down and do the best with what he inherited."

"He became a voice of moderation on a lot of policy and programs," says Myrow, with perhaps an ironic choice of phrasing given the context. "When you're a cabinet member, you're not necessarily doing what *you'd* like to do, but rather what the president would do when faced with the realities he finds upon taking office."

And with that in mind, Myrow sees one of Geithner's greatest accomplishments in the starkest and most objective of terms.

"Despite it all, he had staying power."