



Lessons Learned Oral History Project Interview

Interviewee Name and Crisis Position	Edwin (Ted) M. Truman ¹ , Counselor to the Secretary, U.S. Treasury
Interviewer Name	Yasemin Esmen (Contractor) Yale Program on Financial Stability
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Introduction:

The Yale Program on Financial Stability (YPFS) contacted Edwin M. Truman by email to request an interview regarding Truman's time as Special Counselor to the Secretary at the U.S. Treasury during the Global Financial Crisis².

Referred to as a “veteran [...] financial diplomat” by the Wall Street Journal, Mr. Truman was asked in the run up to 2009 the Group of 20 nations (G20) summit in London to join the Treasury as counselor to the then-Treasury Secretary Timothy Geithner.

Mr. Truman has been credited as the architect of the proposal on special drawing rights (SDR) during the Global financial Crisis. Before the April G20 summit, in a *The Financial Times* op-ed article on March 5, 2009, Mr. Truman proposed a special issue of SDRs of \$250 billion. He asserted that the SDR allocation would provide a boost to confidence, signal international cooperation, and could be implemented quickly. His proposal was approved at the summit and the allocation became effective on August 28, 2009, earlier than most other proposals at the London summit.

Mr. Truman is currently a nonresident senior fellow at the Peterson Institute for International Economics. Previously, he had served as assistant secretary of the U.S. Treasury for International Affairs between 1998 and 2001. He directed the Division of International Finance of the Board of Governors of the Federal Reserve System from 1977 to 1998. He was one of three economists on the staff of the Federal Open Market Committee between the years 1983 and 1998.

Truman has also been a visiting economics lecturer at Amherst College and a visiting economics professor at Williams College. He has published on international monetary economics, international debt problems, economic development, and European economic integration.

¹ The opinions expressed during this interview are those of Mr. Truman, and not those any of the institutions for which the interview subject is affiliated.

² A stylized summary of the key observations and insights gleamed from this interview with Mr. Truman is available [here](#) in the Yale Program on Financial Stability's *Journal of Financial Crises*.

[This transcript of a phone interview has been edited for accuracy and clarity.]

Transcript:

YPFS: **What went wrong [in 2008?] How did what started as a U.S. subprime crisis become a global one?**

Truman: In some sense, the crisis had started earlier than 2008. Certainly, it started in 2007, one would argue maybe even earlier than the August event with BNP Paribas's announcement that it was stopping redemptions in three of its funds because it could no longer value the underlying U.S. sub-prime-related assets. It was inevitable, in some sense. The system had already gotten to the point where it was likely to go into crisis. I think the major failure was that there was inadequate information about what was going on in the markets, including the subprime market, even though there was a lot of work on it. There were a few people who really understood what was going on and they were mostly "riding the merry-go-round."

Truman: There is the famous quotation from the then-head of Citigroup [Chuck Prince] who said, "As long as the music keeps playing, I have to keep dancing." There was a considerable amount of denial, as well as "un-recognition" of what was going on. Then, many people did not really understand the extent of the buildup of the gross financial flows, which were largely across the North Atlantic, with some financing for investments in U.S. assets coming from the United States. It was less net savings pouring into the United States than the participation of the European financial institutions in the U.S. financial system. There was also the failure to recognize that things could go wrong.

Truman: Perhaps if people in 2007 had acted proactively, the crisis might have been less severe. More aggressive use of the [U.S. Dollar] swaps earlier might have been a good idea. More aggressive attacks or pressures on the investment banks to improve their capital positions would have been better, especially in the wake of the Bear Stearns takeover. However, the authorities, especially in this country, did not have the tools to do that. All they could do was to exercise some degree of moral suasion and hope and pray.

YPFS: **You mentioned, in your latest article, the *International Coordination of Economic Policies in the Global Financial Crisis*, that one of the reasons that caused the crisis to expand was a failure of the policymakers to see the extent of the crisis, more than the people or just the bankers, that they expected it to resolve itself. From what I read, I understood that the U.S. was quicker in**

capturing the possible extent of ramifications of the crisis before the rest of the countries. Did I understand that right?

Truman: Yes, that certainly is my view. There were two reasons for that. One was the United States was the epicenter of the crisis. So, it started here at home. The United States officials were also late in recognizing the seriousness of the situation, but they were not as late as their foreign counterparts. Furthermore, there was this tendency abroad to underestimate the consequences and say, "Well, this is a U.S. problem. It will not affect Europe or the rest of the world." That was part of the denial or the lack of understanding of the global ramifications, because there was limited appreciation for the extent to which foreign financial institutions, and therefore their creditors, were involved in the merry-go-round.

YPFS: You mentioned that the U.S. officials were late as well, and we had talked about the fact that the crisis had started in 2007. When would have been a good time for the U.S. officials or the world itself to realize it? Was it earlier in 2007, before BNP Paribas?

Truman: There was a lot of examination of the subprime crisis because it was pretty clear that some of these debt instruments were going sour and there was a lot of analysis about this process. They were having these tenuous financial structures built on top of them. People understood to some degree that those financial structures, because they were artificial structures, were somehow vulnerable.

Truman: However, it was not clear to most analysts and observers and financial institutions themselves, how far they collectively had built up this set of structures. There were a lot of warning signs that various mortgage originators or sources of instruments were going sour. The general pattern was to say we would somehow get through this. I confess that I was among those that felt that way.

Truman: Part of the problem in financial markets is that there is always this tension between fear and greed. Greed was overwhelming and, ultimately, it took a while for fear to set in. On the one hand, if fear or caution had set in earlier, and had it been encouraged more by the authorities in this country and abroad, the crisis might have not been so large when it came. They might have also prepared better.

Truman: The United States in particular did not have the policy instruments, for example to directly pressure the investment banks to curtail their activities. They were supervised in principle by the [Securities and Exchange Commission] SEC, but the SEC at that point was not really in the safety and soundness mode of supervision. The focus of Its supervision historically was from the perspective of investor protection. These institutions were acting like banks, but they were not supervised like banks, and they had less capital than the banks.

Truman: There also was the problem of mortgage originators. Many of the mortgage originators were not supervised at all. They were subject mostly to state

regulations, though the quality of state regulators varies from state to state. In general, people did not realize to what extent a house of cards was built on top of these mortgages and how potentially fragile that house of cards might be. That situation was well developed by the time we got to 2008. In some sense, even if they started addressing the situation back then, A) it would have been very politically difficult, and B) probably even then it would have been too late.

Truman: On the other hand, some of the financial officials, to the extent that they did understand this or did suspect that things were going wrong, they could have been more active in using the bully pulpit to act. There is a story which I know is true: A member of the Federal Reserve Board was concerned about the mortgage origination market and suggested to the Chairman of the Federal Reserve, Alan Greenspan, that the Fed should do something about it. However, the member of the board did not then press it any further. He is no longer with us. He regretted he did not. He was on the right side, but he, too, did not push things as far as he might have. He could have given a speech himself, for example.

YPFS: You were called before the G20 meeting by the then-Treasury Secretary Timothy Geithner as an “experienced financial diplomat,” as The Wall Street Journal refers to you. You were also the architect of the special drawing rights [SDR] proposal that was approved at the London G20 summit. Could you please elaborate on your role in solving the crisis?

Truman: Well, I do not think I solved the crisis. I had worked with Tim Geithner before. I have known him since the late 1980s, and we worked together at the Treasury at the end of the Clinton administration. He was the undersecretary and I was the assistant secretary. We had worked together for a long time, off and on. There were delays in getting people confirmed and into positions in the Treasury Department at the beginning of the Obama administration. In particular on the international side, there was no one.

Truman: So, he called me up in early March and said: “Would you come and join us in this period before the G20?” and I said yes. This was eight years after I had left the Treasury and many of the senior people on the staff were the same people I worked with when I was there as assistant secretary. So, I just sort of slipped back into that role and carried some of the burden.

Truman: I was now at the Peterson Institute for International Economics and I had, as a lot of us had, been watching developments in the fall of 2008 as the crisis developed. I was old enough to know what special drawing rights are, which is not true of most people. I thought that it would be a good idea to have a special issue of special drawing rights. Although my name was associated with this proposal, there was a lot of encouragement from other people on the outside.

Truman: I had already written a paper mentioning this proposal that had come out at the end of 2008. I, and others, had mentioned the proposal when we were meeting as

think-tank people with the British before the London summit and we knew it was somehow on the agenda of the G20 staff and officials who were preparing the summit. So, I decided to write this longer piece for *The Financial Times* proposing a substantial issue of special drawing rights of \$250 billion, which was roughly the most that could be done and approved by the Treasury Secretary without an act of Congress.

Truman: When Tim Geithner called me, and I happened to be in London when he called me, and asked me to come back to the Treasury, he knew I had made this proposal. My piece [in *The Financial Times*] had just come out. He said, “Well, I have an open mind on the subject of SDR,” even though some of the career staff at the Treasury were against the idea and the International Monetary Fund (IMF) staff itself was against the idea. I know that because a group of us had met with the career senior people both at the Fund and the Treasury and they had said, “We do not like this idea.” My former colleagues at the Federal Reserve were not enthusiastic, either.

Truman: So, the idea was there. It had been kept alive by the emerging market countries and other people who were preparing for the London summit, I and others had talked to the British about it. I, at least, had gotten the British into the position to think that it might be a good idea. However, it was essential that the United States supported it because we could veto it from happening. So, if we were against it, it was not going to happen.

Truman: A week or ten days before the London summit, the [Treasury] Secretary wrote a letter to outline his position on a number of these issues and he included, in that letter, an endorsement of the special drawing rights proposal.

Truman: At that point, the British recognized that it was going to be a big number and a bit of a surprise. The British Prime Minister persuaded a number of his reluctant European counterparts to be in favor of the idea. In fact, at the meeting of the communique drafting committee, several of the representatives of other advanced countries said, “Well, I do not approve of this, but my leader has already said yes.” So, the skids had already been greased and it went through. Because it was something that could happen quite quickly, the whole thing was implemented by September of that year. Whether it made a big difference is for the historians to decide.

Truman: So, I was associated with the idea. It had a lot of support from other people, including people from emerging markets, some government officials and other professionals, and considerable support from other people who were in the think-tank world.

YPFS: **It does sound like a lot of diplomacy. You worked with the international players in this. How was the international cooperation at the time? You mentioned in your paper that there was at first a denial, and then everyone**

pointing the finger to the U.S. as the guilty party for the crisis... Then, only in the third phase, after the Lehman [Brothers] collapse that the international authorities realized, “Oh, we have to work together.”

Truman: Well, as a generalization, that is certainly my view, but, really, it is just a generalization. In early September 2007, the governors [of central banks] got together at the BIS [Bank for International Settlements] and they asked their supervisors if what had happened with BNP Paribas would be a big problem, and the supervisors said no, it would not. However, it was obviously more of a problem.

Truman: Because the epicenter of the crisis was in the United States, there was a certain amount of finger-pointing at the United States. It did not do any good, by the way, to point fingers after the crisis was underway. To the extent that their financial institutions were participating in this rush to invest in these assets, which were of lower quality than was advertised, as supervisors, they were as guilty as we were. We are not responsible for what a French bank, or a German bank, or a Spanish bank, or an Italian bank buys. Finger-pointing does not do any good, and it is fair to say that some people did worry.

Truman: One of the initiatives that the United States took, partly defensively, was to ask the Financial Stability Forum [FSF] to begin to look at the lessons from the crisis right then, and the FSF, in fact, put out an interim report in October 2007. In that sense, at least at one level, there were experts who recognized the potential for crisis more than senior officials did.

Truman: While that work continued, markets were going up and down. After the Bear Stearns rescue, things calmed down. There was a sense that things may blow over and that the United States may have a recession, and we were already in a recession. There was also the sense that the United States would continue to be impacted, but not as much as what had already happened and less so the rest of the world.

Truman: However, the Lehman collapse, which, in my view, was not the cause of the crisis but a victim of the crisis, was a big wake-up call to everybody. People came together, creating a much greater willingness to act cooperatively and collectively.

YPFS: Do you think the cooperation has improved in the international arena? If there is a future financial crisis, do you think we, as the world, will be able to react more quickly and act in consensus without going through the first phases of denial and finger-pointing?

Truman: Well, to be frank, my answer is “no or not enough.” Denial is natural and hoping that things will turn out all right is also natural. Policymakers should be gradual in their response to situations where there is uncertainty. However, that view, which is widely practiced probably because it recognizes a reality, is undercut when you

have a major crisis. There is a reluctance to take the big steps that are necessary to head off a more serious crisis getting out of hand. That kind of evolution is probably inevitable.

Truman: On the other hand, I would hope that this recognition lag could be dealt with partly through exercises, like the one that Yale is participating in, by educating people about what the lessons are in previous crises and appreciating the importance of identifying and recognizing the potential for a crisis sooner than later. Better education and emphasizing that you need to think about the potential for things getting much worse, what we call “fat tails...” (a higher probability of an extreme event that would be suggested by a normal distribution of events) is necessary if you are going to head off a major crisis or reduce the impact of a major crisis.

YPFS: How about the international financial institutions like the IMF, the World Bank? Have their roles changed after this crisis? Have they changed? Are there lessons we can learn?

Truman: Well, the answer to this is, “Yes, to some degree.” The Fund and the Bank, once they got into things, responded pretty aggressively and both institutions have evolved and have new procedures and instruments to deal with problems in their particular domains. As an example, we had the [IMF Flexible Credit Line] FCL that was created in March of 2008, which is still around.

Truman: On the other hand, the role of the Fund and the Bank as the central organizers of the international financial system probably has diminished over the decades. This role is probably smaller today than it was ten years ago, in part because their resources have not been augmented by as much as they should be. Furthermore, the world is, ironically, tied closer together, but leaders, although they may recognize this, tend less to act on the fact that their countries and their prospects are tied together as much as they are. They think they can escape the consequences.

Truman: The answer to this problem is to have better educated leaders, better educated in the general sense, and better educated advisors and commentators. One would hope people have learned certain lessons and I suspect they have. However, usually, you are fighting the last war and not the current war, which is inevitable.

YPFS: This is the second time we are talking about education: We also talked about better education being necessary when it comes to international cooperation. When we talk about education here, are we talking about drawing lessons from the past?

Truman: Yes, we are talking about drawing lessons from the past. It is human nature to be somewhat optimistic, which is not all bad. However, it does help to have some people around who are not so optimistic, who know from previous experience that

things can and do get out of hand, and who also appreciate the potential for things getting worse before they get better. The task of policymakers and advisors is to strike that balance. They did not do a great job starting in 2007-8, and my guess is we are probably no better off today. We may even be worse off partly because, as I said in that article, the national politics of public opinion felt that we were wrong to bail out the banks, etc.

Truman: Many things that were done, on the financial side in particular, are very unpopular such as the facts that A) Banks were bailed out and B) Very few people were sent to jail. The underlying politics, with a small p, of this whole exercise was a negative experience.

Truman: Now, one would hope, again, as a result of the work that scholars and others do that, in time, the view of what was done would become more positive. Another hope is that, at least, there is a higher the probability that people would learn the lessons, which include learning the lessons of coming together sooner and recognizing the potential for a really big crisis.

YPFS: **In your 2012 article, *G20 is Failing*, you say that the accomplishments in London, where you also mention as a high point, are in danger of unraveling because the countries failed to implement what they agreed to. Why do you think this happened? You also say, at the end of your other article, which I thought was really striking, that if there is another crisis, the G20 has only themselves to blame.**

Truman: This comment had more to do with the aftermath. The G20 had its first meeting in Washington, which was a big path-breaking meeting, and then had a big meeting in London, which produced a lot of drama. They had a subsequent meeting that year in Pittsburgh. The year after, in 2010, they had a meeting in Toronto, followed by a meeting at the end of 2010 in Seoul.

Truman: Part of the agenda for meeting in Seoul, which had been promised at London, was an agreement on an increase in IMF quotas and redistribution of quota shares, which would be steps towards the reform of the governance of the International Monetary Fund. Also, the Europeans agreed voluntarily to share more broadly their positions on the IMF Executive Board. That was an agreement that was largely brokered by the United States, though you had to get other people to agree.

Truman: It was not implemented because, to be implemented, it was necessary for the United States Congress to approve it and the United States Congress would not do that. The Obama Administration was unwilling, maybe quite reasonably, to pay the political price that was being extracted by the Republicans, where they wanted concessions on other issues if they were going to approve the necessary legislation. So, it stalled. It got stalled essentially because of U.S. domestic politics and it got stalled because, in some sense, the crisis was over. It got stalled

also because the whole narrative, if you want to put it that way, of the global financial crisis was rejected by the general public.

Truman: At that point, you were almost two years after the Seoul agreement, and nothing had happened in the United States to further its implementation. It was not until the very end of 2015, until three years later, that we, the United States, finally passed the necessary legislation to approve it. The Republican Congress not only extracted from the administration a promise to favor a reform of the IMF lending policies (limiting the use of special circumstances to justify large programs) but also put in the legislation a provision calling for subsequent (after 2016) approvals of the renewal of United States participation in the new arrangements to borrow (to lend to the Fund over and above the size of the U.S. quota) to receive reauthorization by the Congress, rather than just be approved by the Treasury secretary after informing the Congress.

Truman: You have had essentially, with the United States serving as an example, a turning away from international responsibilities, or at least what I see as responsibilities. Others would say, “Well, it is not our business. Why should we be spending the taxpayers' money for this?”

Truman: What had happened was basically mostly U.S. domestic politics, combined with the negative narrative about what was done to fight the crisis.

YPFS: Do you think that if the countries, by that I mean the U.S. and others as well, have actually implemented the agreements that they got at the G20 meeting... Now, we are talking about a recession in Europe. Would that still be underway if these [agreements] have been implemented?

Truman: I do not think there is a connection. Ultimately, the Congress acted, so the Fund got these resources. The issue for the Fund today is the next round of replenishment and enlarging those resources. A portion of the IMF's financial resources are going to go away unless there is a new agreement by the end of the year. In the short run, the Fund has adequate resources, but it does not really have adequate resources for the longer term. In some sense, the failure to reach agreement is symptomatic of a failure to agree on other things. So, it is not just a failure of people saying, “Well, we don't want to go there.” But also saying, “We do not see that it is important to agree.”

Truman: As for the current situation in Europe, I think the potential for recession is there. But it is a problem of their own policies and lack of agreement on what is appropriate policies are in Europe. They have a policy space within the Euro area in particular. Then, of course, you have the Brexit going on.

Truman: To the extent that Europe is focusing just on European problems, including Brexit now as part of those problems, they have a tendency not to focus on other problems. There is only a certain amount of, as they say in the journalistic world,

oxygen in the room. Rather, to put it more realistically, there are only 24 hours in a day. Senior European officials are spending all their waking hours and more worrying about Brexit and worrying about the future of Europe. They do not have the time to focus on other problems.

Truman: I am exaggerating a bit, but that is sometimes the circumstances, where you have enough other issues demanding attention. They have the whole issue of the governance and the structure of the euro area and European Union, and the support for the international institutions is not at the top of policymakers' list.

YPFS: **Do you think the current situation in Europe, because of how what started as an American crisis spread to the world... Do you see the European recession spreading the other way around, to the U.S. or to some other countries?**

Truman: The situation today is somewhat different. Recessions happen all the time, periodically. When you have a recession in a major country or a major region, it affects other countries, but at not necessarily in crisis proportions. For example, the European debt crisis, which followed on after the global financial crisis, did impact not just Europe, but the rest of the world. There were slowdowns in Europe and other places. It tended to weaken growth in the United States, but it was not a crisis situation for us.

Truman: On the other hand, since the 1970s, some of the other events that happened outside the United States have affected the United States, and those would classify as a crisis. You had the Latin America debt crisis, the global debt crisis, in the 1980s. That certainly affected the United States. You had maybe a smaller crisis in Mexico in 1995, which had a big effect on the United States. You had the Asian financial crisis in 1997 and 1998, and that affected the United States and the rest of the world.

Truman: If you do not handle these crises appropriately, it does seriously affect other countries. Those other crises were global in their consequences but recession itself is not a crisis.

YPFS: **You mentioned in *International Coordination of Economic Policies in the Global Financial Crisis* that - this, I thought, was really thought-provoking - although China was very supportive of the macro-stimulus, ten days before the G20 meeting in London, the governor of People's Bank of China wrote an essay that was seen by some as an attack on the international role of the U.S. Dollar and the U.S.'s leadership in the context of a crisis. You wrote that this signaled both China's discomfort in the role of the U.S. Dollar and U.S. leadership, and the prospect of future U.S.-China disagreements.**

YPFS: **Reading it now, at a time when we are talking a lot about the China-U.S. trade war, it made me think: Do you think that this was actually a sign of what we are living today? Can we say that this was “the seed?”**

- Truman: Not really... I was at the Treasury when that essay was written and delivered. Governor Zhou was giving a speech in Thailand and these comments about the U.S. Dollar was in the three or four pages of the speech. It made a big splash, and it was then released separately as an essay. Why did he do it? Was this a secret message coming from the Chinese leadership?
- Truman: The answer to the first question is, "I do not know." The answer to the second question is, "I do not know, but I suspect not." It is true that in that period, support for the United States and how we do our business, if you want to put it that way, came under a cloud. And that cloud is still there.
- Truman: My personal interpretation was that this was the way of Governor Zhou, who was the leader of the reformist group and people in China, including in the financial area, protecting himself by saying, "Well, people are blaming the United States and there is something in that. So, if I give a speech that shows my skepticism about the United States and the international role of the Dollar, that will strengthen me politically at home."
- Truman: That helped: He only retired a few years ago, last year or maybe the year before. It was, in some sense, symptomatic that it was showing some discomfort with the role of U.S. leadership. Skepticism about our system was implicit in the initiative, and that skepticism was there at the People's Bank; I know because I had some engagement subsequently with a senior official at the People's Bank in another context and we talked about this. It was a view that is, in fact, shared by many people today.
- Truman: I do not think it had anything to do with the current trade war because in some sense, the current trade war is our problem, if you want to put it that way. Not that there are not legitimate issues that we should be concerned about in regard to China, but, in some sense, it has been us who has brought trade policy into the relationship. It is not as if the United States is saying, "You have been attacking the role of the Dollar in the world, so now we are going to raise tariffs on you."
- Truman: On the other hand, more broadly, the question of rivalry between the United States and China, which is also part of the trade war, is there, as well as the fact that China does not play by all the same rules that we do. Or, at least, that is our impression. There is resentment over the view that the U.S. Dollar is special. You had the governor of the Bank of England recently give a speech which was somewhat along the same lines. So, it is not unique to the People's Bank of China. However, I do not think it really has a direct connection with the current trade war. An environmental factor, at most.
- YPFS:** **In their book *Fire Fighting*, Bernanke, Geithner and Paulson mention that the Federal Reserve counting as an arsenal is far more constrained than at the time of the crisis and that this is a serious handicap in the case of a future crisis, if it was to happen today. Keeping in mind that the Fed swaps were**

very, very important at the last crisis, at the global financial crisis, do you see this as being a handicap internationally, as well?

Truman: Well, you are combining two questions.

Truman: From a narrow point of view, monetary policy has less scope to be used than it did in 2007. Certain countries' policy interest rates were 5 percent, and, therefore, a long way before you got to zero before you had to get involved in what are called "unconventional monetary policy moves." In that technical sense, and an important technical sense at that, monetary policy instruments are less available.

Truman: There is an argument that fiscal policy should be more available. It is agreed that it should be available but whether it should be more available than it was in 2008 is debatable. On the other hand, with interest rates so low, the point is that you do not have to grow particularly fast to be able to expand the economy more rapidly than your interest bill is expanding.

Truman: Then, of course, Geithner, Bernanke and Paulson in their book were also concerned about some of the other instruments that the Federal Reserve used, or the government used, which have been taken away. The ability of the Fed to support financially a particular institution has been removed and the ability to offer broad guarantees has been removed. So, some of the tools that were used have been removed. On the other hand, the regulatory system has been strengthened.

Truman: As far as the swap network is concerned, the Federal Reserve has rolled it back, but it is still there and more so than it was in the beginning of the crisis; it is still there for the major central banks. There is, of course, an important question as to if we ever got involved in something like this again, whether there would be political consequences if the Fed once again provided \$600 billion of credit to foreign central banks. That would depend on the circumstances. If the Federal Reserve had done all that in 2007, it probably would have had real political problems. Though in principle, the Fed should have done more sooner.

Truman: There is this tension about whether the Federal Reserve will be there for the international financial system the next time around. That brings you back to the question of whether there are alternative mechanisms, the question of the resources of the International Monetary Fund, and something that is called the "global financial safety net" in general.

Truman: I think that is basically where we are. In the future, it is important, as I said in answer to several of your questions, for the authorities to identify problems sooner rather than later. It is important that they, recognize potential crises, be prepared to act sooner and in more force than they have done in the past, and to have the tools to do so. The United States has some more tools and has some less

tools. Other countries are actually better off and have made more progress on the tools point than we have. I think that is the general view.

Truman: As far as macro-economic policy is concerned, in some sense that situation is as controversial as, if not more controversial than, it was in the past, although there is a general recognition in the economics profession in the United States, and maybe even among policymakers, that we do have more scope to use fiscal policy to stimulate the economy than we did. We need to remember, however, that a fiscal-stimulus action was done by the United States in early 2008 and another in 2009. The latter was considered too big, was probably too small, and it was taken away too soon. However, a big chunk of rest of the world and a big number of countries in continental Europe, do not agree with that at all. They would say, if anything, that there was too much fiscal stimulus the last time.

Truman: The big philosophical differences that remain, and maybe even the philosophical strategy differences, were there during the global financial crisis and, if anything, have been intensified.

YPFS: I felt that was really interesting, that philosophical differences are still there and even have been intensified...

Truman: It has not been dwelled on to a big degree in the work that I have seen on the global financial crisis. There was a big, collective fiscal stimulus. Many countries had fiscal stimuli. It is the case that probably a few countries overdid it in terms of their debt positions. It is not clear if the United States overdid it; probably we under-did it. That was because the Congress would not do anything more and the Congress insisted on rolling things back, and the Obama Administration felt it had no choice.

Truman: On the other hand, when the proposal was made in late 2008 and early 2009 to have a joint fiscal stimulus with everybody pulling together, even then there were some technical differences. Such as “What do you consider a fiscal stimulus? Is it right to count what are called automatic stabilizers? Or should you include only discretionary actions? How do you measure what is a stimulus?” You can get tied up in knots about measurement, which happened.

Truman: Then, there was a view in particular, held by the Germans but also the continental Europeans more generally, that it was inappropriate to use fiscal policy, discretionary fiscal policy, beyond automatic stabilizers. That view is still there today. That is one of the debates within Europe today where Germany is running a fiscal surplus. It is committed to paying down its debt, and since it seems to be going into recession, or very slow growth, and it is a major engine of the European economy, it is pulling down the rest of Europe with it.

Truman: Some people, the Keynesians, think that this is inappropriate policy and that the Germans should be moving the other way with their fiscal policy. To some extent,

these philosophical differences, which were there even at the height of the crisis in 2008-9, if anything, have been magnified ten years later. That was my point.

YPFS: **So actually, it might take longer to reach a cooperation or collaboration mindset?**

Truman: Enough countries, authorities, and their publics still have bitter memories of the global financial crisis and disagree on the effectiveness of what was done and whether it was even appropriate that I have my doubts. If something on this scale were to happen right away again, which I do not think is likely because this was the worst global crisis since the Great Depression, and one might reasonably think we have another couple of decades before we have something similar. However, if we did have something similar in the next five or ten years, you might well find it even more difficult for countries to pull together before the crisis had fully developed.

Truman: That is not just because of the countries themselves, countries vis-a-vis other countries, but it is also because disagreements within the United States, and other countries, about what was done. Many of the measures that were taken by President Obama and his people, and President Bush and his people, were very unpopular and remain unpopular. If we cannot do it ourselves, then we can hardly expect it to be done by other countries.

YPFS: **What could have been done differently? If we ever face a similar crisis again, what should we do differently? You mentioned that the Federal Reserve should have established Dollar swap networks more rapidly and established swap lines earlier.**

Truman: You should try to remember or understand the lessons that people have drawn from the global financial crisis and related crises. You should not necessarily follow exactly the same playbook but have an appreciation for what was done in the past and why, so you do not have to spend quite so much time reinventing the wheel. It was fortunate, for example, in this case of the swap network, which was dismantled in 1998 or 1999, that it was partially put back in place or used as a potential instrument. People still knew about it and how to work it.

Truman: It was actually prepared to be used in the millennium changeover at the end of the 20th century. It was resurrected and used in 9/11. That meant that, when you got to the end of 2007, the Federal Reserve thought it would be useful to transform and use it in the way it was used for foreign commercial banks. Those financial institutions would borrow from their own central bank. My point is that there were enough people around who knew what they were talking about.

Truman: This was unlike the situation with the SDR. In the case of the SDR, I realize in retrospect, one of the problems was that the last time SDRs were issued was in the early 1980s, for which the decision to allocate was taken in the late 1970s. There

was a proposal for special adjustment of SDR holdings that was agreed at the end of the 20th century, but it had never been implemented. The idea was to incorporate Russia and the other countries of the former Soviet Union in the system, but after 1998 and the Russian default interest waned. (The United States gave the necessary approval for the necessary amendment to the IMF Articles of Agreement in the same legislation in 2009 that authorized U.S. participation in the enlarged New Arrangements to Borrow.) However, most people in positions of authority in 2009 had never heard of the SDR. In fact, I have been critical of the fact that the Fund management itself did not see this as an opportunity to do more to promote the SDR.

Truman: That is an example that, unless you know your history, read what I, others, and you in the Yale program write, unless you think of the lessons of these crises, then you are starting off in a less good position in a crisis. You could be better prepared. In some sense, what your Yale project and the Bernanke, Geithner, Paulson project are all about, in my view, is to try to make policymakers better prepared, at least in terms of having appreciated and thought about what was done in the past. I think they need to know that everything that was done in 2008-9 might not be done in 2032-33, but they would at least have a better basis on which to think about alternatives than without such information.

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