



Lessons Learned Oral History Project Interview

Interviewee Name and Crisis Position	Salvatore Antonio Fratto ¹ Deputy Assistant to the President and Deputy Press Secretary, White House - President George W. Bush Administration
Interviewer Name	Mercedes Cardona (Contractor), Yale Program on Financial Stability
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Introduction:

The Yale Program on Financial Stability (YPFS) reached out to Fratto via email to request an interview regarding his experience at the White House and the Treasury Department during the Global Financial Crisis². Fratto was Deputy Assistant to the President and Principal Deputy Press Secretary during the George Bush administration, from 2006 to 2009. He worked directly with the President and the Administration's senior economic policy, national security, and legal teams, communicating on international and domestic policy issues to national and foreign media.

Prior to his time at the White House, Fratto served at the U.S. Treasury Department as Assistant Secretary of the Treasury from 2001 to 2006. In this capacity, he led the Administration's communications strategy for addressing major economic policy issues, including financial crises, tax policy, and international development programs. At the time of this interview, Fratto was managing partner at Hamilton Place Strategies, a strategic policy and public affairs firm in Washington D.C.

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

Transcript:

YPFS: Let's start with a chronological account of the positions you held around the crisis period.

Fratto: I was at Treasury from 2001 until September of 2006. After that I went to the White House. Still, even in the White House I had the economic portfolio and the legal portfolio. All things economic were still my domain.

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

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

YPFS: What was Treasury's stand on communications before the global financial crisis? Was there debate at the time in terms of increasing transparency in view of what's going on in the media, in society—Twitter coming on board, and all sorts of communication changes?

Fratto: Twitter hadn't been invented yet, really, I don't think by the time the financial crisis came along. Maybe it had, it didn't have a million users even at that time.

Financial crises are interesting things. For officials in government, they're really, really complicated because what you're balancing is what can you say as an authority that is going to give appropriate knowledge about the effects that you're describing and doing it in ways that aren't going to undermine confidence and cause a market rut.

When you see a problem in the economy, you see a problem in financial markets, it's not like seeing a problem in healthcare. If the President of the United States or the Secretary of Health and Human Services says, "We see a problem in opioids" what happens is everybody starts coming up with solutions to go deal with opioids. They pile into opioids."

You have a crisis in AIDS and a huge amount of research dollars, attention, and work went into dealing with HIV/AIDS—very appropriate. That investment is also coming at the expense of other things that might be easier to conquer.

In financial markets, when the Treasury Secretary comes out and says, "There is a problem in home mortgages," people don't pile in. They run away. They sell, and they cause fire sales and people leave and run away from those things.

Your communications must be careful and nuanced in how you talk about those things. It's much more complicated. The tools that you have available generally aren't great, or they weren't great at that time. I think there are more tools and better tools now that can make things easier. But, it's hard to foresee what you're going to need.

I remember very early on in the administration, in the first term of the Bush administration, the Undersecretary for Domestic Finance at the time was a guy named Peter Fisher. A really brilliant guy, but he had come to us from the New York Fed. The New York Fed had this working paper series that they would write, very academic. They'd write a working paper on a whole range of topics that they'd put out there in public.

When he came to Treasury, he wanted to try to do the same thing in Treasury. I said, "You can't do that at Treasury." Treasury isn't an academic institution, not that there aren't really talented PhD economists and people who could write some really interesting things. We are a policy-making body so the signaling is different. If we write a paper on really high tax rates, then what the world says is,

"Oh, Treasury is considering a policy of very high tax rates." They don't say the same thing when the working papers are written at the Fed or at the IMF or other places. The communication challenges are just different for authorities and in particular a place like the Treasury Department.

YPFS: Having been a spokesman at Treasury, was that helpful when you were dealing with the communications around the crisis for the White House?

Fratto: We were very fortunate in that we always obviously had a very talented Treasury Secretary. On the communications side, we had a very experienced communicator at the Treasury Department. The whole team over there was a group of experienced people, people who had been on the job for a long time. In fact, my successor, Michele Davis, was also one of my predecessors.

For her to be in that job at a time of crisis was excellent, because you wanted someone with great experience who understood the job, understood what to do, who was well known throughout government. Michele and I have a wonderful relationship. We had a wonderful relationship at the time. I had a wonderful relationship with the entire communications staff. The talent level there was really good. In terms of being in experienced hands, it was very fortunate.

YPFS: In general, how well versed were the other branches of government in these kinds of financial communications issues during the crisis?

Fratto: Not great. I would say the team at the Fed, led by Michelle Smith, was excellent. They were terrific, and they were also very experienced. We all know each other. We could all communicate with each other really well. Again, I think that put us in a pretty good place.

The other arms of government, the other agencies, were not blessed with a whole lot of experienced talent that had dealt with financial crises.

Both Michelle and I had literally worked on financial crises together, early in the Bush administration. We'd worked on international financial crises with Argentina and Brazil and Uruguay and Turkey. We had some knowledge on those things, of how you need to communicate and what those things mean.

No one is truly experienced to deal with what we ended up dealing with. The Hill's education level was low. They weren't prepared at all. They didn't know how to deal with it. They usually ended up just attacking.

YPFS: Recessions are cyclical. Nobody can plan for the apocalypse, but should there be some planning for some kind of financial crisis?

Fratto: Well, I think the way they communicate around recessions is fine. Communicating around a financial crisis—by definition, what you should practice

is how you are going to communicate with each other in a crisis. If you could anticipate the crisis, then you should be able to prevent the crisis.

The communications plan under most crisis situations has more to do with having a process for bringing in information, for sharing information, for sorting out what's real from what's unreal, for putting it into priorities of what needs to be addressed when and how and by whom. Then moving on those things very quickly, which you can do with people who are talented and have experience.

In terms of the specifics, that's sort of a general rule. I deal with crises right now. I mean, we have crisis communications all the time. I know I can drop in and manage a crisis in any circumstance and do it at a very high level. What you don't know is what exactly is the crisis and what are the tools that you have available to deal with that crisis?

Michele Davis has some different views on this. Michele also dealt, on the private sector side, with the BP oil crisis. She may have some different views on this also.

In the financial crisis, we were building the tools to address problems that were created in the financial crisis, that were brand new. Everything was de novo. You can't anticipate those things, right? Then you find yourself trying to explain very complex things in a very short period of time with people who are upset and angry.

That's not to say that you should just shrug your shoulders and say, "Oh, well. We did as good a job as you can do." There are a lot of things that we can do, that we could have done better. Some of them were things like: how are you regularly briefing, how are you regularly educating? Are you doing daily background briefings to ensure that you're always educating and filling in the gaps as you have new reporters coming on to the beat as the story grows and it gets bigger?

In a crisis you will have new reporters coming on and they weren't there for the benefit of the education that you were doing at the beginning. Are you constantly educating? Are you constantly briefing? Are you making experts available to them? Are you doing things on background and publicly as much as possible to make sure that you're giving clear information in regular, predictable ways?

Regular briefings at the same time every day where you deal with questions, that's something that you could do. Some days you're not going to have any new questions. You're not going to have anything new to say but you should probably still be out every day making sure that it's buttoned down, that misconceptions are being dealt with in a regular way.

YPFS: I think you mentioned one time this was like trying to fly the plane while you were still building it.

Fratto: Yeah, design it. Not just building it, but designing the airplane and building it, that's what you're trying to fly.

YPFS: Was it hard to get the big players involved to focus on communicating when their main priority was basically stopping this financial meltdown?

Fratto: I was glad that Andrew Metrick and Tim Geithner recognized that getting the policy design right, designing it, developing it, executing it, all of that is important. How you communicate it to policy makers, to the public, to participants is just as important if not more important than the actual design of the policy itself. You have to get the policy design right, but then how do you describe it to people in ways that are understandable, that don't challenge their sense of ethics about what the government ought to be doing in these situations, about the urgency of it, about the expectations for success?

All of those things, those are all communications challenges. That has nothing to do with the nuts and bolts of designing a term asset lending facility. No one knows what a term asset lending facility is, right? You need to figure out a way to communicate it and how it's going to help and what the expectations are.

YPFS: You've argued that in the vacuum, a false narrative built up that this had all been created by the banks and now the government was bailing them out and propping them up. How could they have avoided that narrative?

Fratto: There's this narrative out there and you see it in movies, whatever, that Lehman failed, a big bank failed and caused the financial crisis. Well, the financial crisis was in full flame by the time Lehman failed. There was a financial crisis. There was a credit crisis and a credit quality crisis, a financial crisis, and a recession. And that wildfire also captured a large bank that was particularly susceptible to the flames. It captured a couple of other banks too—remember Lehman Brothers was an investment company, not a bank—the biggest bank failure was Washington Mutual.

WaMu was the biggest bank failure of the financial crisis. Bear Stearns, again, it was an investment bank, not a commercial bank.

YPFS: AIG was an insurer.

Fratto: An insurance company, and Fannie Mae was a government sponsored enterprise. But the way it ends up being portrayed—it's a Wall Street banking crisis. Not that the Wall Street banks and financial companies didn't have some role in the crisis, but there were a lot of roles being played in the financial crisis.

Countrywide, was the largest mortgage originator in the country. They originated the vast majority of failed loans. Nobody talked about Countrywide because within the wreckage of the financial crisis, Bank of America bought Countrywide

cheap; they bought Country Wide for 4.1 billion dollars. Now a year earlier, Country Wide was the largest mortgage originator in the world. They were bigger than Wells Fargo. A third of all mortgages in the country were being originated by this company that Angelo Mozilla started.

Calling what happened at Countrywide and a handful of other mortgage originators like that a Wall Street banking crisis just misses the point. It also has misapplied the emphasis of anger and vengeance and policy making. It's misplaced it a little bit.

YPFS: There's been a legacy of distrust in the banking establishment, in Wall Street, and in the institutions that regulate it.

Fratto: The truth is that the crisis would have been much worse were it not for the large Wall Street banks. It was a large Wall Street bank, JP Morgan that bought the remnants of Bear Stearns and WaMu. IndyMac was resolved by the FDIC.

YPFS: Barclay's picked up Lehman.

Fratto: Barclay's picked up Lehman Brothers. You know, it was the large banks that had the resources to cushion the blow of what was happening during the financial crisis

YPFS: Right. But what everybody remembers was that Friday when the stock market cratered; that Friday when they were negotiating over the weekend to save Lehman. And they eventually just let it go.

Fratto: They didn't let it. I would say there wasn't really an option there.

YPFS: This was all happening in early September 2008 when we were at the peak of a presidential campaign.

Fratto: Crazy. It was a challenging environment.

YPFS: How did that factor in? John McCain stopped campaigning, Obama stepped in to meetings, even though he hadn't been elected yet.

Fratto: It just was what it was. It definitely made things more complicated because we also had obligations. There was an important thing that was happening.

There are a couple levels of complexity here. First, by the time that weekend hit, and AIG happened, there was no question that we needed to go to Congress for additional authorities and resources to deal with the financial crisis. What that meant was that in the midst of, not just a presidential election but congressional elections, where a third of the Senate and all of the House are up for election, we

were going to go ask them to make probably the most unpopular vote in the history of the republic in real time.

There are votes that members of Congress have made that, looking back, three years later, 10 years later, become really unpopular. We knew this was going to be a very unpopular vote the moment that you make the vote. We're going to ask them to do that in the midst of their re-election campaigns. That's one level of complexity.

The presidential race was another. The complexity there is that we had an obligation to these two men, one of whom was going to be leading the country or the elected next leader of the country in two months. We have an obligation to prepare them for dealing with this enormous challenge.

They knew, also, that how they reacted to the things that we were doing was going to impact them in their own election campaign. That added a level of difficulty. The candidates, they wanted to be briefed, they wanted to be knowledgeable about what was going on. They also didn't necessarily want to know too much. Right? They didn't want to be in a position where—and we were very careful and protective of both campaigns to not put them in a position—where they were endorsing what we were doing. Now if they wanted to endorse what we were doing, that was up to them. We would never want to be presumptuous that because we briefed them on something and told them about something, that they then go out and say, "I understand what they're doing. It's the right thing to do."

President Obama, then candidate Obama, actually did that a couple of times. We had to be very respectful and careful of what they were going through. At the same time, we were in fact briefing them on a whole range of matters of government. I mean, this was the most thorough transition of power in the history of the country, because not only were we going through the recession in the financial crisis, but we had ongoing wars and we had all the other arms of government that we wanted to make sure that an administration was going to be able to walk in and make a smooth transition. We had very close relationships with both campaigns.

They were both candidates and the campaigns themselves were being briefed on national security issues and everything else as much as possible. You know, you would have much rather this happen in a non-election year for all of those reasons. It needed to be, it was already the most difficult challenge that we could have scripted to deal with, to then have to do it in the middle of an election campaign and including a presidential election campaign made it really, really difficult.

YPFS: Looking back 10 years after it all happened, now you're in the private sector, what advice would you give to your former public servant self? How should

government communicate? Should they have plans set? Anything you wish they had done differently? Anything that you would change?

Fratto: I mean, maybe it's something just for this administration because the last administration, they were in crisis. They emerged with lots of experience. If they didn't have experience going in, they got experience. We communicated with them, I stayed in constant communication with the Treasury Department and the White House after the administration changed to offer advice and guidance and counsel in any place and any way that I could be helpful. Same thing with the Fed and the Federal Reserve Bank of New York here, also, any time you can be helpful.

My recommendation to the present communicators is to reach out to us for advice. I mean, we have a lot of knowledge and experience and would welcome the opportunity to come in and talk through thinking about process and the kinds of processes you have in place, and the kinds of practice that you can do when dealing with a crisis.

Trying to think about all of the things that you need to do in a crisis as its unfolding is really hard. It's not like there's a playbook that you can go to. There is, sort of, a process book that you can go to. You can go to how do we open, create these standard levels of communication? How do we ensure that someone is taking hold of looking at information and sharing that, that we're putting together those regular opportunities? That we're thinking in advance about the best ways to be establishing educational opportunities for the reporters who are covering these things?

Again, by definition, crises are complex. By definition, you're almost always dealing with the new information. If it's new for you, it's also new for the reporters who you are counting on to take that information and pass it on to the public. You can't tolerate reporters who haven't yet climbed the educational learning curve on these complex issues. You need to push them up the learning curve. You need to help them up there, pull them up the curve because you need them to get to the top as quickly as possible and be at the same level you are so that they could report accurately and responsibly.

YPFS: Well, normally by the time you get to be covering the Treasury Department, or the White House, you should be experienced.

Fratto: That's true, but the problem is that before the crisis has happened, you have fairly responsible or experienced people there. Then the crisis happens, and the story gets bigger. You start sucking in reporters from other beats and throwing them into things. You know, they were covering the SEC or whatever. They were covering something over here and then the next thing you know they have to go write pieces and interview hedge fund managers on CDO's and credit default

swaps and things like that. The night before they're looking at Wikipedia pages trying to study what credit default swaps are.

YPFS: **No one in government ever complains of having too much staff. Were you adequately staffed for the challenge you were facing as well?**

Fratto: Treasury was not. Treasury could have used a couple people. It might not have been a bad idea to plus up, to detail some people over to Treasury.

For the White House, I was the economics and financial crisis person at the White House. Fortunately, I had a lot of knowledge and experience. I had come from Treasury. Everyone knew me, the reporters knew me. I was in a good place. By design, we wanted the Treasury Department to be the lead. It was important for Hank Paulson and Treasury to be the important voices during the financial crisis. The resources needed to be over there at Treasury.

YPFS: **Why was Treasury designated as the main spokesperson rather than the president or the Fed? When was this decision made? At first, when Bear Stearns happened, Treasury was not so visible.**

Fratto: We wanted Treasury to be the spokesperson because.....

YPFS: **Right. You know, sort of, as things developed, we have spoken before about a legacy of distrust of Wall Street. Given that, how do you prepare the public for the next crisis or recession, big or small? How do you explain to them things like the Glass-Steagall after mortgage-backed securities?**

Fratto: It's difficult but I think there's some ongoing education on basic financial literacy and economic literacy that could be useful. A recession and a financial crisis are not the same thing. They're different things. Lots of recessions happen without a corresponding financial crisis. It's true that a financial crisis will often cause a recession. The reverse isn't always true because there actually are lots of safeguards built in. When we had the recession in 2000 into 2001, there was an equity markets bubble that crashed. That's all equity, right? That's all investment money at risk. It had some financial effect, but it wasn't a financial crisis, it didn't lead to a financial crisis. There were inflated assets that the air came out of.

Every financial crisis, every single financial crisis involves a re-pricing of risk. Right? Things that you thought were not risky, you realize are risky. You reevaluate what that risk is. That risk comes at a cost for somebody. That's not

well understood. People don't know what that means. There are some people who think of themselves as sophisticated, economic policy people who don't necessarily know what that means. Some of these concepts are really hard to communicate during the crisis.

They're also hard to communicate in peace time because they're boring as hell. No one really cares about that stuff, right? It's boring as hell to talk about those things when we have a Super Bowl coming up and things that we otherwise should be interested in.

But, there are some basic concepts that I think we can educate about, such as risk. There's always risk. Risk isn't a bad thing. Risk is a good thing. How you price risk is a question. If everybody thought about risk in just a little bit more elevated way, they could think about the cost of risk better.

YPFS: **Now, the news cycle is very different than it was in 2008. We've got the president tweeting, Elon Musk is tweeting, and we have fake news. We have 24-hour cable channels covering every hiccup in the stock market. Are we going to have to also change the way that communications get transmitted? I think that now the New York Fed is on Twitter.**

Fratto: It's an endless cycle, but I think it's all good. I don't think that everyone's good at it yet, having all those tools available. I know that people have different views on this. They feel like there's too much communication going on, there's too much of a cacophony going on. I personally don't feel that way. I think it's great that all of these tools are available. I think it's great that we can get to market participants much faster than we used to, that we can convene people and share information much faster and easily than we used to in the past.

I think right now the problem is that we're still toddlers playing around with this stuff. There aren't enough experienced people who have figured out how to use the tools in effective ways yet. It's very uneven. There are some people who use them really well, some people who use them really poorly.

It's going to take a little bit of time for people to get better at it in the same way that it took a while for people to get better at television. Right? Television was around for 25 years before people sorted out some things and figured out how to do it better. Some of those things are purely generational. Our kids will be better at using social media for communication than we are.

YPFS: **If you were to sum up an action plan, some of the lessons learned from 2008, what would you advise the current administration and all future administrations?**

Fratto: First is to actually do crisis preparation. You won't know what the crisis will be, but you should practice on a kind of crisis. You don't need to know what exactly

the crisis will be. What you need to do is practice what happens when a crisis happens. What happens when different crises happen in different kinds of ways? Who will call whom? Whose job is it to convene? Whose job is it to compile information? How do you divvy up roles?

You need more arms and legs? This point is really important. Crises happen, and you don't have enough people because you have your office there for peace time. When it's war time and you need more troops, how do you get them?

It would be interesting if you had a situation where you asked three other agencies to each identify one person who could be detailed to the department of Treasury by mutual consent in the case of a crisis because we need an extra person, we need someone to come over. You train that person and teach them about trade. [Why about Trade?] You tell them keep your eye on what's going on at Treasury. You come up with reserve troops that you can call on for a crisis.

You should do tabletop exercises where you go through and walk through. Find out where the holes are and who isn't ready and who knows and who doesn't know. Who knows how to communicate and why and under what conditions? Preparation is one thing. You can prepare for a crisis without knowing what the crisis is.

The second thing is to commit to more education. Don't be afraid to educate. Commit to it, make it regular. As you're working with reporters, your job is not just to communicate at them or through them. Your job is to elevate their understanding of complex issues. If you elevate their understanding of complex issues, they will do a much better job reporting on the things that come before them. It's the only way you can help them be accurate or gain knowledge. I don't know that people think about it this way. I'm just saying that this is the way you have to do it when you're dealing with complex information.

YPFS: **In Washington, that's not the usual relationship between the press and the government. Very often you have this slightly adversarial, and lately this very adversarial, relationship.**

Fratto: Yeah, it's a mistake. It doesn't improve outcomes. It makes outcomes worse. You can still fight with the press all you want. You can still argue, raise voices. I'm not saying that it will not still be adversarial, but it'll be adversarial at a higher level rather than a low level. You can still have a difference of opinion on what the policy choices are and how they're executed and what their impact is going to be. Those are fair game. Having mistakes being reported is your enemy. Right? Having bad information being put out in a crisis is your enemy. Fixing inaccuracies in the press is a waste of your time. You don't have time to clean up stories. You need stories to at least be accurate even if they're not even presented in a flattering way. They need to be accurate.

The alternative is you're going to go back and have to go work with a reporter and editors and call them names and fight. What are you doing when you're doing that? You're not doing the news of the day that you have to be dealing with.

As you mentioned, the news cycle never stops. Where are you getting this extra time to go clean up stories? You don't have that time. You have to invest on the front end with steady, regular education. Not because it's going to make the stories flattering, because it's going to make the stories accurate.

YPFS: I was talking to David Wessel (who was embedded with Ben Bernanke for a while during the crisis) and he said a lot of the same points. He said that in the Pentagon they have regular briefings even if there's nothing going on because then when war breaks out, they don't have to bring out the playbook for the first time. They have already communicated it?

Fratto: That's exactly right. That's another thing. If you don't have regular briefings, first of all, you don't know your press very well. They don't know you very well, and they don't understand you very well.

The other is that, then when you schedule a briefing, tension is high and they're wondering, "What's going on? Why is he scheduling a briefing?" You're conditioning the press corps to think that every time you schedule a briefing, some big announcement is coming that they need to be on edge for. They start running around trying to chase stories.

That's why you should always have a regular briefing. It should be a normal thing to have a regular briefing, even if you have no news at all.

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