Yale SCHOOL OF MANAGEMENT
Program on Financial Stability

Lessons Learned Oral History Project Interview

Interviewee Name and Position	David Wessel[1], Former Economics Editor, *Wall Street Journal*
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Introduction:

The Yale Program on Financial Stability (YPFS) reached out to David Wessel to request an interview regarding his time covering the Global Financial Crisis (GFC) as a working journalist., Wessel spent 30 years on the staff of *The Wall Street Journal*, most recently as economics editor and writer of the weekly Capital column[2]. He shared two Pulitzer prizes, including one in 2003 at the *Journal* for stories on corporate scandals. As the crisis was developing, Wessel spent time following Federal Reserve Board Chairman Ben Bernanke and writing a book, *In Fed We Trust: Ben Bernanke's War on the Great Panic* (2009). At the time of this interview, Wessel was Senior Fellow in Economic Studies at The Brookings Institution and Director of the Hutchins Center on Fiscal and Monetary Policy.

In this interview, Wessel talks about his view of the GFC from the media and discusses the many challenges policymakers faced when trying to communicate the government's crisis-fighting strategy to the general public. Even though Wessel finds the government's policy response to be largely successful, he believes its public communications strategy often fell short, failing to translate complex policy measures into messages the public could understand. As a result, Wessel thinks it's important for government entities to prepare communications strategies before crises actually strike. And when they do, he believes it's important for government entities to have already assembled experienced public affairs teams that are capable of delivering articulate messages that the press and public can trust.

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

Transcript

[1] The opinions expressed during this interview are those of Mr. Wessel, 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. Wessel is available here in the Yale Program on Financial Stability's *Journal of Financial Crises*.

YPFS: **Let's start at the beginning. Where were you in late 2007 and early 2008 as the crisis was gaining steam? Were there signs that the housing bubble was going to collapse?**

Wessel: Yes, of course. I was at the *Wall Street Journal*, and a colleague of mine made a list of all the housing market stories we had done, and it was pretty clear that something unusual was going on. We speculated about it. Was it a bubble? We certainly didn't have any idea just how devastating it would be and how interconnected the system was.

I remember very clearly the first signs of things going amiss in August 2007, when the French bank BNP Paribas halted redemptions from three funds that were invested in U.S. subprime assets. At the time, I was helping to supervise monetary policy coverage at the *Journal*, and I spoke with a colleague in Europe about what to make of the European Central Bank's (ECB's) response. The ECB was very mysterious in explaining what it was doing. It put out a release making it seem like this was just a small market adjustment, but the situation actually resulted in the biggest ever opening of its emergency liquidity facility. At the same time, the Fed made some unusual statements about the discount rate and other things.

So, the short answer is yes. We knew something was up with the housing market and paid a lot of attention to it. But we had no idea how interconnected everything was and what the ultimate consequences would be.

YPFS: **When you spoke with sources off the record, did they express any deeper concerns about what was going on? Such as the possibility that this would result in a recession far worse than what we experience on a cyclical basis?**

Wessel: Not particularly. Most people underestimated how big the crisis would be. Remember, early on, [Federal Reserve Chairman] Ben Bernanke and [Treasury Secretary] Hank Paulson said that the subprime mortgage crisis would largely be contained. The total loss of wealth from the subprime market collapse, for example, wouldn't have been that big compared to, say, what happened when the stock market fell in the early 2000s. So, the thought was: "well, the subprime problem will be manageable, too."

I don't think the failure to shed light on the extent of the crisis early on was necessarily a failure of communication so much as a misunderstanding of how devastating the crisis would be. It's easy to look back at certain indicators and piece together a narrative leading up to the crisis. But initially very few people saw the signs for what they really were.

When the Fed suddenly cut the discount rate in August 2007, that was the first time I remember thinking: "this could be worse than we anticipated." I remember writing a column discussing what might cause a recession. It was one of those columns that looks really good in retrospect. I remember some economic forecasters—the people who do this sort of thing for a living—telling me I couldn't possibly be right.

YPFS: **Recessions are cyclical. Even if Treasury and the Fed weren't expecting Armageddon, should they have had some sort of communications plan in place for when economic downturns occur? In other words, should they have been more prepared?**

Wessel: I think they should have been better prepared for a crisis, but I don't think officials realized we were slowly building up to a once-in-a-generation event. And I don't really blame them, either.

YPFS: **In general, though, should there be a blueprint for how to relate to the public when financial crises—or even just cyclical economic downturns—occur?**

Wessel: Yes. Take, for example, when Bear Stearns nearly collapsed in March 2008, and it was becoming very clear that this was not just a little blip on the radar but something much bigger. I think there should have been a plan. More important, I think there should have been someone—or even a team—whose entire job is to think about how to effectively communicate with the public. It shouldn't be something that someone just does on the side.

This is why fire departments and police departments have designated spokespeople to handle press and the public when there's a catastrophe. It's because they don't want the firefighters who are actively putting out the fire, or the SWAT team that's busy resolving a hostage crisis, to also have to worry about keeping people appraised of the situation and explaining how they've chosen to respond to it.

During the financial crisis, I think it was a mistake not having enough people who viewed this as their role: to understand how the government was responding and then communicate that to the press and public in a coherent and effective way. There should've been more people who were skilled at this and who had done it before, as opposed to people taking on this role as a secondary function.

YPFS: **In your book, you discuss how the Paulson Treasury mismanaged the "theater"—or optics—of the crisis response. What specifically went wrong? And how could it have done a better job?**

Wessel: Well, first, we'll always be glad that we had such good leadership when the crisis struck [in 2007-08]. Each of the main crisis fighters had unique experience: Paulson was from Wall Street; (Timothy) Geithner [then President of the New York Federal Reserve Bank (FRBNY)] had already been through several crises at Treasury and the IMF; and Bernanke was a student of the Great Depression. But none of them had a lot of experience translating their work to the public.

` Geithner had always been a behind-the-scenes guy. He was very skilled at explaining to reporters what his superiors were doing. But once he was in charge at the FRBNY, he didn't give many speeches laying out a framework for his decisions, and he didn't meet with reporters all too often, either.

Paulson came from a major financial firm, Goldman Sachs, that never really felt the need to do much public outreach, even though that's changed a lot in the last decade. So, he too had very little experience with public outreach.

Bernanke by nature was a shy person who similarly had little experience with this. In all, you had three officials who hadn't been through a political campaign, or even a corporate crisis, where they had to be on the front lines explaining issues to the public.

So, when I say that Paulson messed up the "theater," one example that comes to mind is when he told Congress one thing and then did another without really explaining why [i.e. when he lobbied Congress for Troubled Asset Relief Program funding and then used it to inject capital into banks]. And with Lehman Brothers, for example, Paulson initially said he and his colleagues were unwilling, not unable, to save Lehman; later, he said they didn't have any choice but to let it go because the government didn't have the authorities to save it. In short, there wasn't always a straight story or consistent message for key parts of the crisis response.

I don't judge Treasury too harshly for this, because as I said, they were very busy putting out the fire. And it's much better to worry about putting out the fire, but not to have a coherent message, than to worry too much about the message and come up short fighting the fire. I think the challenge is to have someone on the staff—someone whom the principals can trust—who is comfortable sitting in on meetings and finding a way to effectively communicate key decisions and how they're being made.

Think about how the military and State Department do this. They have regular briefings conducted by public affairs professionals. When they do their job well, spokespeople are trusted by both the press and the principals they work for. During the crisis, there wasn't anybody like this. No one was holding weekly or daily briefings, and there was no one who was trusted by both the press and the public to be the intermediary. I think this was a mistake.

YPFS: **It sounds like a failure to speak plain English, too.**

Wessel: Right. But if you're not good at speaking plain English, then you hire someone who is. It's famous, of course, that Bernanke went on *60 Minutes*. But there wasn't a lot of this during the crisis.

YPFS: **Well, Bernanke was an academic, so he was used to explaining difficult concepts to classrooms full of students.**

Wessel: Yes. But he had been in Washington for some time already. Basically, the government needed people who were good at translating complex crisis-fighting initiatives to a general audience. And they didn't have many.

YPFS: **The crisis really escalated in the fall of 2008, during an intense presidential election and then during the transition to the new Obama Administration. How did the political situation factor into this?**

Wessel: It made a difficult situation even harder. Given this, though, I think government officials did their job extraordinarily well. There were some bizarre political moments, such as John McCain suspending his campaign to come to Washington to fight the crisis. Things like this just made the actual job of fighting the crisis even harder. But, given this, it's amazing how well the U.S. policy response worked.

YPFS: **Was there a noticeable change in communications strategy when the Obama administration took office? Or when Bernanke stayed on as Fed Chair under a different administration?**

Wessel: There was no change at the Fed, but there was a change at Treasury. I was actually working on a book at this point and knew a lot of the Obama people coming in. I think a lot of people at the Obama Treasury tended to have been in Washington before and understood the importance of good communication with the press, whereas many Paulson Treasury officials came from outside of Washington and may not have fully grasped the importance of public communications from the outset.

The main point is that it's possible to have the right policy but to lose the support of the public, press, and politicians if they can't understand what you're doing and why you're doing it. I'm not sure the Paulson Treasury understood this right away, and I also think they were too overwhelmed to think about this given how hard the crisis hit.

YPFS: **In your book, you talk about communication with central bankers abroad. Do you think that U.S. officials had trouble communicating the global nature of the crisis?**

Wessel: I think that communication among the policymakers—both domestically and abroad—was pretty good, although communication with the market wasn't great. Both in the U.S. and abroad, for example, people were surprised by the decision to let Lehman go especially given that Bear Stearns had been rescued only six months earlier. In general, though, I think that the mechanisms by which global policymakers communicated, in particular the G7 and G20, actually worked very well.

YPFS: **How did the public communications strategy change as the crisis wore on? Was it impacted by the concurrent change in how media was being consumed around the world, with mobile and real time communications on the rise? And as a result, did policymakers feel pressured to respond to the public faster than ever before?**

Wessel: I'm not sure that there was a clear difference in this respect between administrations. Basically, prior to the largely successful takeover of Fannie [Mae] and Freddie [Mac] in September 2008, the crisis was unraveling slowly enough to allow for officials to explain one thing before having to move on to the next. But by the time that Lehman failed, the dominoes started falling much more quickly [e.g. AIG also began to collapse]. It wasn't really a question of how mobile communications and Twitter accelerated the public's response to these events. You could see it simply by watching CNBC; all of these terrible things were happening at once, and you'd think: "Holy cow, the world is falling apart!"

Now, in today's environment, I think you'd want to have a social media strategy. As President Trump has demonstrated, using social media can give you enormous reach and allow you to go around the press pretty easily. So, yes, I think the modern-day crisis communications strategy must incorporate Twitter and other social media.

Basically, you need people on the staff to do the messaging and the act of translation. And, obviously, there are different channels by which to do this. It could be a televised briefing once a week. It could be posting on Twitter every 10 minutes. But the main point is that you need people whose primary responsibility is to do these things.

YPFS: **To sum up, you need a general plan for how to communicate before the crisis strikes?**

Wessel: Yes. And people whose sole job is to carry out a communications strategy.

YPFS: At the time, were government entities fighting the crisis adequately staffed for this?

Wessel: No. And I think they would admit that.

YPFS: You mentioned the crisis escalating in September 2008, with Lehman failing, AIG verging on collapse, and panic spreading throughout the market. What was it like trying to cover so many consequential events at once?

Wessel: I had the great advantage—or misfortune, you could say—of thinking that Bear Stearns [in March 2008] was the great event. So, I was actually on leave in early September working on a book. I came back to the *Journal* the same weekend that Lehman failed. Things were really starting to hit fan. It was both exciting and scary trying to figure out what was going on.

To me, one of the most interesting times was in early 2009 when the Geithner Treasury was trying to put together a banking plan. Geithner gave a big speech that was really poorly received. He didn't seem ready to present the plan, and the market started sinking while he was still talking in the Treasury cash room.

Sometime not long after, I remember doing a column where I basically said: "look, it doesn't seem like Treasury has a plan, but it really does; it just hasn't been good at explaining it to you." By then, it was clear how devastating this crisis had been, and how important public communications were, but the Administration still didn't have its act together enough to explain what it was doing in a way that anyone outside the inner circle could understand.

Let me try another metaphor: When a tsunami hits, you want people to know it's coming—you'd warn them about it, if possible—so that they could get out of harm's way. But a tsunami often comes when you're not anticipating it, and so people find themselves scrambling, and many get hurt as a result. But two or three months after the fact, when you're managing the fallout, you should have a plan in place for how to communicate with people: i.e. to tell them which neighborhoods are safe and which aren't, and to update them on rescue and restoration efforts. And so, I judge officials a little harshly for not regrouping and figuring out how to successfully communicate with people when it had already been several months since the financial tsunami had hit.

YPFS: **I recently saw a Brookings poll of Fed watchers, and there seemed to be a consensus that the Fed doesn't have a handle on communications—that perhaps, now, there may be more overall communication from the Fed, but that the resulting message is a bit of a jumble. What are your thoughts on this?**

Wessel: I was actually somewhat involved with this poll, and it was very specific to monetary policy communication. I don't think the Fed has quite mastered that yet. But it's working on it.

YPFS: **So, the Fed is still learning how to translate the everyday issues as well?**

Wessel: I think there's a difference. In the case of a crisis, you have to explain to people what you are doing and why you are doing it—so that they can understand why you are implementing policies that on their face may not seem so fair. It's hard to completely do that. But it's important to try, for example, to explain that you're not bailing out the banks because you want to help the bankers; you're bailing out the banks because if the banking system stops functioning, no one will be able to get a car loan. And if no one can get a car loan, no one will be able to buy a car. And so Detroit won't sell any cars, leading to mass unemployment and other bad things. This is the kind of crisis communication you need.

The Fed has a slightly different issue. It often tries to communicate to the markets its plans for monetary policy and interest rates, depending on what happens in the economy. And the trouble is that it's very much a conditional forecast. If the economy behaves the way the Fed anticipates, then it will do so-and-so to interest rates. The market tends to skip the first part and only digests the interest rate policy prescription. As a result, it gets annoyed when the Fed doesn't actually follow through with its plan, but that's because the economy has performed differently than expected.

So, I think monetary policy is a special case. It'll always be difficult to communicate monetary policy goals effectively, but central banks are getting better at it. It's really a lot different from how you would communicate in a financial crisis, where the goal is to earn the trust of the public and contain the populist response.

YPFS: **You discussed the "populist revolt" to the financial crisis in your book—how bank bailouts and the existence of "too big to fail" banks engendered public backlash. How can policymakers minimize the populist response?**

Wessel: You think about what Clinton and Reagan might have done, and especially what FDR did do, which is to say: "This is a mess. We don't have it all figured out, we have your back, and we're going to figure it out." That sort of confidence-building rhetoric is helpful—to be able to explain to people what's happening and why it's happening, and what the government plans on doing about it.

I think that's the big challenge. During a crisis, the public is not interested in understanding what credit default swaps are, nor the difference between commercial banks and investment banks. It's the kind of stuff that Bernanke did on *60 Minutes* that is most important.

For instance, I'm really struck by this new documentary put out by HBO [Panic: The Untold Story of the 2008 Financial Crisis] and [the movie] *Vice*. It has lots of interviews with Bernanke, Geithner and Paulson. It really humanizes them, and it makes them seem like good guys doing the best they could in a bad situation. We didn't see much of this side of them during the financial crisis. They were so busy and so determined to show that they were putting out the fires, and so they didn't allow themselves to be seen in public struggling with this massive crisis, or they were worried that doing so would hurt public market confidence.

YPFS: **Well, it seems like the public's confidence took a beating anyway.**

Wessel: Yes, it did. The bottom line was that the crisis was terrible, and the economic leaders of the country tried to prevent another Great Depression. They were doing what they thought was right, but the public didn't understand why they were doing it. And the public got the impression that banks were being bailed out, but that Main Street wasn't. Policymakers simply were unable to convince the public that saving banks was actually in its best interest.

During a crisis, leadership often gets criticized in real-time, but ultimately will be judged by historians as to whether they acted wisely. And so, the question is: is there some way to improve communications so that while you're fighting a crisis, you get a little less criticism—and a little more of the praise you may get later on? You'll never be able to totally eradicate criticism. People lose their jobs during crises, and many will always be unhappy to see banks bailed out because they were too big to fail. But the question is: can we do a better job explaining crisis-fighting strategies to people in real-time to lessen the hostility to the U.S. policy response as it's happening? I think the answer is yes, although I can't exactly prove it.

YPFS: **Over the next few years, what steps do you think the government should take to ready itself for effective communication during the next crisis—whenever its strikes? And who should this strategy involve? Obviously, the White House, the Fed, and Treasury, but what about Congress (i.e. the Senate Banking Committee)? And do the different government entities need to establish better lines of communication with each other beforehand?**

Wessel: I do think it's important to establish intragovernmental lines of communication, and I worry that if we get into trouble again, there would be less intragovernmental cooperation than ever before. Washington is so polarized—and there's so much invective—that it would be hard.

It can be difficult to plan communications strategies five years in advance, though, because many of the key policymakers are not in office for more than five years. I do think, however, that government entities should be building a cadre of people who are skilled at communication and should actively be practicing it. It wouldn’t be the end of the world if Treasury had a weekly or monthly briefing the way the State Department does. The Fed is getting a lot more practice with press conferences occurring every eight months. And Fed officials are becoming much more comfortable being interviewed on TV and the like.

So, I think that on the economic policy side of the administration, it's important to build up an ability to explain complex things to the public. You need people who can advise a principal on communications issues during a crisis the same way lawyers and financial experts do. These individuals would not be there to promote particular interests but would be there to know what has worked well in the past. It’s also important to have people who are skilled at creating graphics that can be posted online to show how complex things work, and people who are creative at making videos with explanations from policymakers. There's plenty of this ability and creativity in the private sector, so I think the government could do it, too.

YPFS: You mentioned how frequent changes of administration complicate this challenge. At the State Department, for example, career diplomats stay on to work under multiple administrations and provide some continuity. Should there also be career communications people in Treasury, for example, who do this?

Wessel: Well, there are civil servants in all of these departments. And some of them are in communications. I don't think that the State Department spokesperson is very often a political appointee. So, it's a fact of our system that we, unlike the British, very often change the people at the top.

In general, I just think it's important to have people working strictly on communications. It would be good if some of them were civil servants, but inevitably many of them will come from the outside. So, it would be good to have a cadre of Republican and Democratic people who are good at communications and could be called into action when the time comes.

YPFS: How would you summarize your guidance on communication strategies moving forward?

Wessel: First of all, I would say that it’s difficult to prepare for an event that is by definition surprising. Just general practice is important. Communications people should be regularly explaining things in public—even when there’s not a crisis—so that they are ready to do it, and skilled at it, when a crisis strikes.

Second, when a crisis comes, you need to have a team of people whose job is to do the act of translation and messaging. That's their primary responsibility. And it should be people who are trusted both by the press, the public, and their principals. A good model for this is the public affairs team at the Pentagon. Some of the top public affairs people at the Pentagon do come out of the military, but some of them are outsiders. A colleague of mine, Ken Bacon at *The Wall Street Journal*, was [former U.S. Defense Secretary] Harold Brown's spokesman. Pete Williams, who is now at NBC, also was a spokesman. People like Ken and Pete have credibility and experience, and you can hire people like them to be public-facing communications officials. They're not making policy. Their primary job is to do the act of translation and messaging. And they can be trusted by the public, press and the principals.

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