

Rattner v. Spitzer: A Battle Royale Over the U.S. Response to the Financial Crisis

By Jamie Heller

Just hours after a government audit lambasted the New York Fed as meek in its role in AIG's rescue last fall, two big names in the financial world sparred over similar questions of government heft—or lack thereof—in downtown Manhattan on Monday night.



Steven Rattner, the Obama administration's former car czar, and Eliot Spitzer, the former New York governor and attorney general, were on different sides of a six-person debate about whether "Obama's economic policies are working effectively."

Amid volleys about unemployment and foreclosures, a theme emerged that tied into the audit and a broader question about crisis clean-up: How aggressive should regulators be in demanding outcomes that could potentially cost some private parties along the way?

Rattner, on the "yes" side of the full debate, contended among other things that in pushing General Motors and Chrysler into bankruptcy this year, the administration used a "fair amount of muscle" and achieved "unprecedented"

sacrifices. Among the sacrificers were lenders who suffered losses as the cases moved quickly through Chapter 11 proceedings.

Spitzer, on the "nay" side, decried the very topic of Monday's audit—paying banks in full for complex securities American International Group had insured, rather than insisting the banks take haircuts as the Federal Reserve Bank of New York tried to close out the deals that were costing the insurer.

"Tim Geithner must explain this to the American public," Spitzer railed at the debate, run by Intelligence Squared U.S., a live debate series in New York supported by the Rosenkranz Foundation. "It was the failure to ask for anything back that was fundamentally wrong."

He said the problem in the administration's handling of the financial crisis wasn't a lack of regulation. Regulators "had the power and chose not to use it," he said.

These same power questions underlined the special inspector general's report. It faulted the Federal Reserve and New York Fed for their refusal to "use their considerable leverage" with AIG's trading partners. In support, it ticked off instances where regulators have "used overtly coercive language" to get results. Among them, the report said, compelling nine large banks to accept TARP money, pressuring Bank of America to conclude its acquisition of Merrill Lynch and securing concessions from creditors in the auto bankruptcies.

But there has been fallout from those moves, including investigations into the BofA-Merrill deal. Ultimately, the audit didn't say directly what government regulators should or shouldn't have done in the AIG deal. But that might have been an easy out for the auditor.

Rattner, for one, is comfortable with how things turned out with the auto makers. In an interview after the debate, he said: "We were operating within a legal framework. Did we push the legal envelope? Perhaps, but I'd call that being creative rather than using the heavy hand of government."

