

**Geithner, Timothy F. – Stress Test: Reflections on Financial Crisis**

Crown Publishers, 2014, [Economics] Grade ★★★★★

Geithner's Stress Test must be a perfect summer reading for financial markets addicts. It is engaging, informative and gives an alarming awakening for anyone who has forgotten the Global Financial Crisis's initial drama. I even got the same thrill from it as from "Too Big Too Fail", although I believe it is not fully up to par. It is an important book – and is a (subjective) report on the GFC's different phases rather than a memoir. Actually, I wish we had gotten to know the author a little more. He deserves more recognition than he has received so far, although Warren Buffett has certainly done his part. I like Geithner's focus on substance, his mottos (e.g. "No peacocks, nerds and whiners"), his honesty (e.g. on his public speaking skills...) and his wry humour. There is something to learn here too, from how the media reflects, judges and labels you.

The main takeaways are the following:

We were very close to a total collapse in our vital financial system - much closer than most of us understand. And the consequences of a meltdown are beyond imagination. Geithner describes the feeling of horror they felt during the worst period in a remarkable way. It is extremely worrisome that much of this seems to be almost forgotten - both in our thoughts and in our actions. Minsky was probably right. The financial system is inherently unstable. And we don't do enough to prevent it from happen again. Can "It" happen again? It will.

I guess most others believed, like I did, that "They" – the Treasury, FED, SEC, FDIC & Co – were well prepared to act instantly in the case of a disruption in the financial system, similar to a well-maintained electric backup system in a hospital. Geithner's book gives an almost opposite picture. I am surprised by how random many things seem, that there is not any map or checklist to follow and how most actions seem to be dependant on the authority of the proponent. It is difficult to distinguish between luck and skill. But one certainly gets the feeling we have been very lucky so far, although I

personally don't believe we have seen the end of the game yet. That said, one is also impressed and grateful for the efforts and sacrifices many made during these turbulent days. A clear sign of this is the respect and appreciation the involved show each other according to the book, even though they might be political opponents. I now believe the outcome of the next GFC will be completely dependant on the common sense and courage of a few decision makers and their political mandates. Scary.

It is quite perplexing that many of the decision-makers (not pragmatic Geithner himself) are true believers of a specific economic school – some are even recognized as doyens - and act very differently. It amazes me that they so willingly want to try all the weapons in the arsenal even though they don't think debt, credit, liquidity and uncertainty are important – or even necessary - factors in the theory they profess to.

In the epilogue, Geithner makes some interesting reflections on financial crisis. *"This is the paradox of financial crisis: What feels just and fair is often the opposite of what's required for a fair and just outcome. It's why policymakers generally tend to make crises worse, and why the politics of crisis management is always untenable."* Geithner's thoughts on the Moral Hazard issue require reflection. And he certainly stresses that we need to improve our tool set. *"At times it felt like we were fighting World War III with General Washington's army."* But is he brave enough? Is it logical to separate monetary and fiscal policy, when both might be needed simultaneously?

Our political system is probably as broken as neoclassical economic theory after the Global Financial Crisis. It is sad – and dangerous - that "Doing the right thing" is so low on the agenda. Our political system is likely to be a difficult obstacle in the next crisis too. Embarrassing.

Don't miss this educational easy read from an initiated, outspoken insider! The beach next...

Michael Persson, July 5, 2014