Facing Slow Growth

An Interview with Steven Rattner, Founder, Quadrangle Group LLC

EDITORS' NOTE *Steven Rattner is also the former Counselor to the Secretary of the Treasury and lead auto industry advisor (popularly known as the "car czar"). He began his career as a reporter with* The New York Times *before becoming an investment banker at Lehman Brothers and Morgan Stanley. He joined Lazard Frères as a general partner in 1989, and in 1997, became Lazard's Deputy Chairman and Deputy CEO. In 2000, Rattner left the firm with three other managing directors to found Quadrangle Group. While at Quadrangle, Rattner managed the personal and philanthropic investments of Mayor Michael R. Bloomberg, a role that he again occupies. He is a graduate of Brown University.*

Steven Rattner

COMPANY BRIEF *Founded in 2000, Quadrangle Group (www.quadranglegroup.com) is a global private investment firm with more than $3 billion in assets under management. The firm focuses on direct investments in the communications, media, and information industries around the world and seeks to partner with superior management teams in companies where Quadrangle's experience, expertise, relationships, and presence can create long-term value.*

What are the key economic challenges the U.S. faces going forward?

We're certainly in a recovery mode – we are adding jobs every month and the GDP is expanding every quarter at an annual rate of roughly 2 percent.

What worries me is that after you adjust for inflation, there has been essentially no wage growth in this economy for almost four years. We can't sustain a recovery at a high level without people spending more money, but if they aren't making more money, they can't spend more money.

I fear that it's not just the effects of high unemployment holding down wages; I worry that some of this may be more structural; in particular, the effects of globalization. It is harder for American labor to compete with labor around the world that is increasingly better trained and more capable. This is a scary thought because there is no easy solution.

I also worry about the budget deficit. We still have work to do. As the budget deficit comes down, it also slows growth – if the government spends less money, the economy doesn't grow as quickly.

Because we're facing continued slow growth, unemployment will only come down slowly. There are some studies that say we might not get back to a "normal" level of unemployment until 2020 or 2022. It's amazing that no one in Washington is even talking about this issue anymore.

Will there continue to be workforce reductions due to productivity increases? Are those jobs going to come back?

Over time, even though some jobs don't come back, new jobs get created. On a global basis, there won't be fewer jobs; the question is where the jobs will be and I worry that not enough of them will be here.

Did true reform take place in light of the recent recession? Are there safeguards against another problem down the road?

I don't believe we have solved the too-big-to-fail problem and I don't believe the solution is necessarily to make the banks smaller. There are many countries – Canada is a good example – that have more concentrated banking sectors than we do; the U.K. essentially has four banks. Size in and of itself is not the issue. In the real world, we're not going to break these banks up enough to guard against any of them becoming a systemic risk.

In 1998, when Long-Term Capital Management went under, it almost brought down the whole banking system. But Long-Term Capital would not have been on anyone's list of largest institutions or most risky institutions. So we are living in an interconnected financial system. The solution is better regulation, not breaking up the banks.

What we don't have yet is better regulation. Dodd-Frank eliminated one obscure regulatory agency but left in place the rest of the patchwork of different agencies with overlapping jurisdictions. Banks are often regulated by two or three different agencies. Often, each doesn't know what the other is doing. Dodd-Frank didn't really change any of that in a fundamental way because of politics, which is unfortunate.

People now refer to the U.S. automakers as some of the most innovative in the world. Based on the negative feedback over the past few years, does this surprise you?

I always believed the return of car sales to a more normal level would happen because eventually people have to buy cars.

The degree of the success of Chrysler is something none of us foresaw. We knew Sergio Marchionne (Chairman and CEO, Chrysler Group LLC) was a world-class leader but we didn't predict he was good enough to take a company with essentially poor products, make the products better but not necessarily best-in-class, and run the company so well that it gained market share and profitability, while hiring more people.

General Motors is performing about how we would have guessed: it is solidly profitable, even bringing in record profits in some years. The company has stabilized its loss of market share; it has gained market share in some months; and its cars are better. Dan Akerson (Chairman and CEO, General Motors) would say it's still a work in progress and that the cars need to get a bit better to be truly competitive with Ford and some of the Japanese companies. He would also say that the speed and quality of management action at GM still is not quite where it needs to be. GM's profit margins in North America are not yet up to Ford's level and there is no reason why they should not be.

When you look at all that Mike Bloomberg has achieved, what will have been his greatest accomplishment?

One of the most amazing things Mike has done has been to facilitate the creation of the Cornell engineering school on Roosevelt Island. The whole focus on bringing the tech sector in will be important, but that school, 20 or 30 years from now, will be a capstone achievement that almost no one else could have put into action.

Are you concerned about U.S. competitiveness in the global economy?

I don't think it's likely that some other country, even China, is going to become a place that creates more income for its citizens on average than the U.S. does or that is at the forefront of every technological development the way the U.S. is. All of that, at least within my lifetime, is relatively unlikely.

It's a matter of degree, but I would not trade our hand in for that of any country in Europe, even Germany. However, China in particular and some of the smaller Asian countries are catching up. It's not a race but I'm not sure that we are always at the forefront of every piece of innovation the way we used to be. ●

