

Inherently Optimistic

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 Freres 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 is your opinion of the U.S. economy today and is there merit to the idea that the U.S. has lost its edge?

Every month, the economy grows a bit and creates some jobs, but it's well below the pace of recovery that we've seen in past business cycles. That's because we came out of this recession more overleveraged at the government and household level than we've ever been. Households have to start saving, which means they can't consume as much, and government has to cut its budget deficit, which means it can't consume as much. You have to get back to sustainable levels of debt and deficits, and that takes time. So that has impeded recovery.

The second thing that has impeded recovery is the impact of globalization on jobs and wages in this country. The U.S. has been a beneficiary of free trade, but that has come at a price on the jobs and wages front.

I saw this clearly when I was serving in the government as the Head of the Auto Task Force.

Not only do you have the competition of imports, but you have downward pressure on wages. Part of what the auto companies had to do to become competitive was to reduce their wage costs because they're increasingly competing against lower wage countries that are producing better cars that are easy to get to this country. So we're in a downward spiral on jobs and wages in sectors that are part of the global competitive world.

The solution to the problem is long and painful, which is that we have to educate and retrain our workforce for the kinds of jobs we do better in America than they do in other places and where we can pay a higher wage. A lot of those will be in the service sectors. I'd love to see manufacturing grow too but, while it can still be profitable, it will employ a smaller share of the workforce. So we have to find specialized kinds of manufacturing or service businesses where we have that edge.

We have enormous strengths in technology, media, the digital world, and financial services, and we have to build on those.

Is it possible to get any true action out of Washington?

Washington has to lead. The economy is not going to regenerate all by itself and simply cutting budget deficits and deregulating is not going to solve this problem – government needs to play an active role just as it did during the Depression. Having worked in Washington recently, I can attest to the fact that it's every bit as broken as people imagine.

When you talk about an absence of leadership, people point their finger at the President. But you have to point your finger almost more so at Capitol Hill, because the President can do so little without Congress that he's not a true chief executive. And Congress has become completely dysfunctional.

Have we addressed the key issues that got us into the economic crisis and are we working to prevent it from happening again?

Some of those issues were addressed by the marketplace realizing that it shouldn't price securitization paper that is a piece of junk as Triple A. So without the government doing anything, a lot of those markets essentially shut down, either because the market wouldn't accept the paper or the bankers said, we're not

going to sell this stuff anymore. Markets have a way of being self-regulating. For the moment, Wall Street is behaving very prudently; some would argue too prudently because many complain, rightly or wrongly, that lending standards have become too tight and it's tough for smaller or new businesses to get funding.

Unfortunately, The Dodd-Frank Bill was necessary; the structure of Wall Street did need remediation. You can blame Congress or the Administration for it, but when you have as big a problem as we had where there was culpability on the part of institutions and individuals, nobody has a right to complain too loudly that Congress and the Administration stepped in to do something about it.

It will have some negative consequences for Wall Street, which is that some of the crazy products and levels of leverage that Wall Street has used to make money have gone away and some of the regulations will constrain Wall Street's business beyond what is necessary to be prudent.

Why isn't there an effective understanding of how much societal need is addressed at the private sector level?

Business has played an important role philanthropically. With the whole Buffett/Gates program of giving away half your worth, the bar has been raised for a lot of us.

But the reason that isn't recognized by the public is that it has been outshadowed by the growing income inequality and by the levels of CEO pay, which has been going up a lot faster than pay for the average American, whose pay is actually going down.

Is it difficult to envision real change in this regard?

Fixing income inequality is not all that difficult; we created it in part through bad tax policy. What I worry most about is how we compete against countries that are getting better at what they do and our inability to address that problem because of the gridlock in Washington, as well as overleveraging at the household and public sector levels.

But beyond that, America is an incredibly productive and efficient country that is getting more productive and efficient every day. It's still a place where people have the opportunity to do well in an environment that is relatively free of discrimination. It's a fairly classless and open society, so I'm inherently optimistic about it. ●