

# Interview

## Spitzer Speaks

### An Interview with Eliot Spitzer



Eliot Spitzer

**EDITORS' NOTE** *Eliot Spitzer served as New York's 54th Governor from January 2007 until March 17, 2008. Prior to being elected Governor, Spitzer served for eight years as New York State Attorney General after having worked as an attorney in both the public and private sectors. From 1986 to 1992, he was an Assistant District Attorney in the Manhattan District Attorney's Office, where he rose to the Chief of the Labor Racketeering Unit. He also worked for the New York City law firms of Paul, Weiss, Rifkind, Wharton & Garrison; Skadden, Arps, Slate, Meagher & Flom; and Constantine & Partners. Spitzer received his undergraduate degree from the Woodrow Wilson School of Public and International Affairs at Princeton University and his law degree from Harvard Law School, where he was an editor of the Harvard Law Review. After law school, he clerked for U.S. District Judge Robert W. Sweet. In 1996, Spitzer and his wife, Silda founded Children for Children, a not-for-profit that fosters community involvement and social responsibility in children and adolescents.*

#### Does the depth of the current economic crisis surprise you?

I am surprised by the depth and speed of the decline, and I think everybody is. Nobody predicted this cataclysm. Even those of us who thought there were structural flaws and saw the tectonic plates of international economics moving in a way that was not favorable for our

underlying economic structure thought that it would take many years for a collapse of this magnitude to manifest itself. The fuse was easily diagnosed in retrospect, as the grotesquely overleveraged nature of our economy, the debt that was imposed on layers of debt with financial instruments that, at the end of the day, were essentially unstable. Even though I pushed at the Wall Street structure, properly saying there is something fundamentally unsound both in the way products are being marketed and in the propriety of the way the industry itself is structured and, at a different level saying, I'm not sure this works economically, I certainly can't pretend that I saw that this rapid descent would occur, and I don't think anybody really did. But the sense was that once the fuse was lit, there was going to be a problem, and it just compounded itself exponentially. We are in a serious downward slump. Some people say they see glimmers. I still see very significant long-term structural problems that haven't been confronted.

#### There is much talk about these structural problems, but is it only talk or are changes actually being made?

Getting and finding structural answers to these problems is extraordinarily difficult. The period of the U.S.'s greatest growth dominance and accretion of wealth, essentially from the post World War II era, was marked initially by a moment when we were the only significant market for consumer products because we were the only nation with a middle class that could consume. We were the only nation that had scale, a rule of law, capital in terms of traditional monetary capital, intellectual capital, and skilled labor. Every one of those factors has now shifted so that we are now one of many that have them. In terms of scale, consumption, skilled labor, and capital, we're now the largest debtor nation. More cars are sold in China than in the United States, they're turning out more engineers than we are, more capital is being generated there in terms of accretion of wealth, and our middle class is suffering. All of the factors that created the perfect storm in a favorable way have now reversed. So we're facing significant problems.

#### Are we going to have to rely most on the government or the private sector to fix these issues?

It is both, and what we have not done well is mediate between them. As Attorney General,

I was active in trying to define the appropriate governmental role, though not really in a regulatory framework. I distinguished between regulation and enforcement of underlying core principles. We had moved so far away from any support for government intervention in the marketplace, either in a regulatory context such as ensuring capital ratios, ensuring integrity in the marketing of financial services, or in a very different setting but equally and arguably more important, adequate social investment in education or infrastructure, whether it's high speed rail, or infrastructure such as medical research. So now we have to determine what will create the environment where the private sector will generate wealth. The private sector generates wealth – not the public sector. But the public sector needs to create the environment: the rule of law and social investment that the private sector forces will not generate, as well as a regulatory framework that will permit the private sector to work appropriately.

We're where we are because we're no longer an island as the only liberal capitalist nation. And so we have to compete and be better than we are right now, and that means smarter government that will invest in a different way.

#### Private sector leaders say they need to have a playing field where they can take risk and, therefore, grow business. Some complain regulation has taken away the ability to be innovative. Do you agree?

No. An overbearing regulatory framework would do that, but those that complain are the same folks that got us where we are. They weren't taking risks – they were playing with other people's money [OPM]. There is a difference between taking risk and just using OPM and leverage to take fees off the top and then, when the market goes south, have somebody else bail you out. That's not real risk; that's not real capitalism. The real risk takers are people like Steve Jobs, Bill Gates, and Warren Buffett – people who really innovate, create, and risk their own capital to get the upside. What we need to do is get back to real capitalism and real economic growth. Too much of our profit over the past decade came from financial services. That reflected too much money being pushed back and forth.

#### Can you really expect changes when you have the same people leading the same companies?

In a moment like this, there is always a search for villains. Yes, there are some bad people; there are people who committed outright fraud. But the larger problem was that we had evolved ideologically to a point where even Alan Greenspan believed in a model that didn't work and wasn't appropriate. He made some mistakes – we all do. The question is how to reconstruct something that will work. So there will be different leadership styles, new innovators, and a new dynamism in sectors we can't even appreciate right now.

**How concerned are you about U.S. competitiveness from a long-term point of view, and are we going to lose our position as the leader?**

I'm very worried about that. The issue is our dependence upon foreign capital, and the capacity of foreign nations to essentially move the dollar up and down based upon their willingness to buy treasury bills and fund our debt, and what that means in terms of our capacity to influence global events. When a South Korean finance minister can say they're less interested in buying T-bills and the dollar, the market reacts to it. When we're being lectured by the former President of Mexico about running excessive debt, and when China obviously is in such a powerful position in terms of its acquisition of T-bills, we're clearly not where we used to be. We have an enormous capital flow problem. In addition, we have an enormous competitive problem in terms of where we will be able to take electric cars, for example, which seems to be an important sector to be in and to be dominant in. Hopefully, we can reclaim that with battery technology and other innovations, but if the auto industry moves somewhere else like China, whose government has expressed interest in becoming the world leader in electric cars, then we're in trouble.

**In 10 to 15 years from now, will we still have Wall Street as it's known today?**

There will always be a financial services sector. Will New York be the epicenter of finance? Obviously, we hope so. As of today, London is suffering more than Wall Street because it seems to have had a slightly less firm foundation, and the current contraction has appeared to hurt London more than Wall Street. The employment base here is far reduced, and there are a lot of people that think that 10 years from now, Beijing or Dubai will be equally as important as Wall Street. It's hard to predict.

**With regard to excessive executive compensation over the past years, there didn't seem to be much public outrage until recently. Did that surprise you?**

Warren Buffett said, "It's only when the tide goes out that you learn who's been swimming naked." A recession reveals many things. It also has a psychological impact. I saw the CEO compensation issue as emblematic of a broken governance structure where too much power had gone to the CEOs, and they were essentially arrogating to themselves not only the upside but also decision-making that should have gone back to shareholders, boards, and a more diverse group. The anger that resulted was almost inevitable when we

hit a recession of this order of magnitude, as people then look back and search for villains. The arguments have been overwhelming and people get legitimately upset about it. And the problem was the same two years ago, for those of us who were saying there is something wrong here.

**With regard to companies that have been declared too big to allow to fail, it seems the more money you put in, the worst shape they're in. Have we gotten to the point where systematically we can't allow them to fail?**

We had gotten to the point where they were too big to fail, and we couldn't tell them to close up shop. That's what happened with Lehman and the downside was enormous. Something needed to be done to stabilize the financial sector. The question was, who should pay for it and what should the financial sector look like once we're done putting all this money in. Unfortunately they're getting it wrong on both counts. Taxpayers are paying more than is appropriate, and we are not restructuring it – we're rebuilding the same edifice. There will be some market pressure that will take away pieces from the too-big-to-fail structure independent of government policy, but government policy should be very simple. If it's too big to fail, it's too big. Otherwise, we become the guarantor, and if we're the guarantor, then we're turning into a utility. The better approach is to say you have to be small and creative.

**It seems today that there's almost a common feeling that success is bad, i.e. if you make a lot of money, you must be doing something wrong.**

I hope not. It is very easy for the pendulum to swing from what I call the libertarianism masquerading as capitalism to populism and the other extreme. The libertarianism wasn't capitalism either – that was just a marauding gang sweeping in benefits that weren't really there. Populism at the other extreme can squelch the creativity we need in the marketplace. The problem politically is it's very hard to be a passionate moderate – it just doesn't lend itself to the sort of rhetoric and outrage you want at either end of the spectrum. But sometimes being in the middle does make sense, so we need to get to that point of rational behavior in the middle.

**As Attorney General, you went after a number of issues that were systemic problems. But a lot of times it was presented almost as personal. Did that frustrate you?**

In a media context, it's obviously easier to create a dynamic that is understood or marketable when it's the Attorney General pursuing Hank Greenberg, Dick Grasso, or Jack Grubman. Jack lives around the corner from me, and we walk our dogs sometimes at the same time. I have wonderful chats with him, and he's a thoroughly decent person in my view. A lot of things were done by people who now look back and realize it was not a good idea. When we were going after the structure of investment banking, sometimes the media would make it seem to be a personal issue, but it wasn't personal for me; it was a structural issue that we needed to address.

**When you look at what's next for Eliot Spitzer, do you have a clear vision of where you want to be?**

No. I have a clear vision of where I would like to have been, and my turn as Governor causes unbelievable pain at many different levels, to state the obvious. My first mission is to take care of my family. I've also enjoyed spending time on family business that my dad built over many decades, as well as doing some things in the charitable world, and some writing that at least keeps my brain working in a logical way.

**Is there any possibility that you will ever return to public office?**

I don't think about it. I was fortunate to have a decade in elective public life and six years as a prosecutor, so I am thankful to have been able to contribute, I hope in a meaningful way. I'm also young, so I look forward to other challenges in life, and different ways to contribute and participate.

**People who know you talk about how great a person you are. Are you able to separate yourself from the media onslaught in order to maintain your sense of self?**

It gets hard. Whether you are going up or going down, one of the real difficulties is maintaining firm reference points and not believing it on the way up and also maintaining some core when things are being portrayed as unduly or unfairly negative. It requires a distance and that is where friends really do step forward – that's when you see who your real friends are. Your real friends are there to hopefully keep you on balance on the way up; and on the way down, your real friends are there to catch you and to tell you that it isn't that dark or dismal.

**Those who consider entering public service feel that it just may not be worth the scrutiny. Do you worry that we're not going to be able to attract the type of talent we need?**

I worry about that very seriously. What people have gone through in the vetting processes is frankly over the top, at this point. We have been cowed by a media that will find the smallest imperfection in somebody and use that to destroy them. Yet, I don't think there is one reporter out there who could survive the sort of vetting that the senior people in the Obama administration have been asked to go through. There has to be some sense of both forgiveness and tolerance and if somebody is willing to step into the public fray, cut them some slack about a stupid decision they made at some point in the past.

**Many times, until you go through adversity, you don't really see what people are made of. Within your family, you must be really proud of the class and character your wife and your three daughters have shown.**

This comes from my wife, Silda, because she and the girls have been through a very tough stretch and have handled it with an equanimity that is pretty remarkable, as has the rest of my family and friends. You do see who you want to be in the foxhole with. And there are some folks who have come through in a very real way, which you never forget. ●