Analysis

Communicating in a Crisis: Lessons Learned from the Last One

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Original post here.

It has become a common sight during the current COVID-19 crisis to see Federal Reserve (Fed) Chairman Powell standing at the podium, calmly explaining that the Fed is using the full range of its tools, including its emergency lending powers, to counter the severe economic effects of the actions taken to combat the virus. Powell further commits that the Fed will "continue to use these powers forcefully, proactively and aggressively" until the virus is under control and the economy is on the road to recovery.

We are witnessing a new, heightened level of communications from the government during this economic crisis when compared to the global financial crisis of 2007-09 (GFC). Former Treasury Secretary Hank Paulson has said that his one regret was that he and his peers "were never able to convince the American people that what they did wasn't for Wall Street, but was for them."

Arguably, better communications may have headed off the widespread disapproval of government actions during the crisis, and the anti-government populist movements that emerged in its wake. This time, government officials seem more focused on avoiding such a legacy.

While the government cannot program the public's response to a crisis, it can and, some would argue, has a duty to communicate about its actions and words in a manner that is open, honest, and consistent. Doing so will at least maximize the availability of information regarding actions taken and the intent behind them, thereby increasing the likelihood that responses will be based on facts, whatever their nature. The government may not be able to totally avoid errors, missteps, charges of favoritism, or a lack of transparency; however, it can counter these with credibility, accountability, and transparency.

As Former Chairman Yellen stated in 2012, "[The] challenges facing our economy in the wake of the financial crisis have made clear communication more important than ever before." This statement is as true today as it was then. Here are some lessons learned from the last crisis that can help:

- Communicate clearly and often
- Be consistent and credible
- Clarify roles

- Foster accountability: Admit mistakes and address them when they arise
- Do not underestimate the public: Speak to all Americans.

Communicate Clearly and Often

Fed and Treasury officials have specialized knowledge about the economy, and when the economy is distressed the markets and public want to hear from them. As early as September 2007, Fed officials began to signal that the distress in the housing market might spill over to the broader economy. Yet, for months the Fed's plan of attack remained unclear.

If government officials do not communicate, an information gap develops, and uncertainty arises. Other parties will rush to fill in an information vacuum. Once that happens, it may be impossible to regain control of the narrative. In the face of uncertainty, financial institutions and markets will retreat into defensive modes, further aggravating underlying systemic weaknesses. We saw this in the GFC and again in March of this year, when bond markets began to freeze.

But the Fed is now demonstrating that it has learned from the last crisis. At a January 29 press conference, Chairman Powell began speaking publicly about the virus and possible impacts: "There is likely to be some disruption to activity in China, and possibly globally, based on the spread of the virus to date and the travel restrictions and business closures that have already been imposed." Roughly a month later, as the threat reached the U.S., the Fed said that "the coronavirus poses evolving risks to economic activity" and " will weigh on economic activity in the near term and pose risks to the economic outlook." The Fed also announced that it was "prepared to use its full range of tools to support the flow of credit to households and businesses (emphasis added)."

The Fed moved quickly to add additional liquidity to the banking system, buying Treasuries and agency mortgage-backed securities to stabilize these markets, and on March 17, it activated its emergency lending authorities under Section 13(3) of the Federal Reserve Act. Powell assured the country that, "When it comes to lending, we are not going to run out of ammunition... That just doesn't happen." The swift and aggressive response exceeded, in speed and scope, the extraordinary response levels reached in combating the GFC. The markets reacted with confidence and trust.

The Fed's communications have, at least for the time being, also carved a new normal characterized by frequent and clear communications. The Fed is not only speaking about the programs it is implementing, but also about the expected prognosis[1] and its overall policy stance and plan for supporting the economy.[2]

One of the many reasons for this change is an evolution of the Fed's communications practices. Writing in 2013, Mark Wynne of the Dallas Fed found that: "Over the past two decades, the FOMC has gone from being quite secretive in its deliberations to very transparent."

When the television news show 60 Minutes called the Fed for an interview with then Chairman Ben Bernanke, the Fed's representative laughed out loud and replied, "the Chairman never does

an interview." To Bernanke's credit, in March 2009, he did sit down with 60 Minutes; it was the first that he had done in his three-year tenure. By contrast, Chairman Powell first sat down with the popular news show just 13 months after he was appointed Chairman.

During his tenure, Powell has implemented live press conferences after every FOMC meeting rather than just half of them. He has also committed the Fed to a "plain-English initiative." The increased visibility at live press conferences and other appearances allows the Chairman to answer questions and add nuance to his explanations. Plain English potentially increases the likelihood that greater numbers of Americans will come to understand the Fed's mission and actions.

With respect to the current crisis, such developments seem to be paying off. Michael Feroli, chief U.S. economist at JPMorgan Chase, recently said: "The Fed is playing a confidence game and its communications should continue to repeat the message that it will do whatever it takes to nurse the economy back to health."

Be Consistent and Credible

Frequency of communication is important, but so is content. It is not enough for government officials to appear to communicate; in order to be perceived as credible, they must speak clearly and consistently about the government's plan, how it will be applied, and under what circumstances it will be modified. Such forward guidance is a powerful tool of monetary policy and crisis fighting. When officials speak with one voice and do not contradict each other, credibility is increased.

During the GFC, Secretary Paulson stated that there would be "No more bailouts," and the government did not make a loan to Lehman Brothers. However, just days later, the Fed loaned AIG $85 billion, and markets dipped precipitously. Some commentators believe that these actions looked inconsistent and ad hoc.

By contrast, since January, Chairman Powell has repeated versions of the same message, especially since the President declared a national emergency on March 13: "The Federal Reserve is committed to using its full range of tools to support households, businesses, and the U.S. economy overall in this challenging time." (March 23, 2020).

Those tools include the Fed's emergency authority under Section 13(3) of the Federal Reserve Act, pursuant to which the Fed has announced nine programs implemented with the consent of Treasury Secretary Mnuchin, as required by law, and providing potentially up to $2.3 trillion[3] in liquidity. With one exception, these programs are backstopped by Treasury investments totalling $185 billion from a $454 billion funding pool provided by the CARES Act.[4]

During an interview on April 9, Powell said: "We do these [programs] with the consent of the…Treasury Secretary and with fiscal backing from the Congress through the Treasury." He also said: "We're using that fiscal backstop to absorb any losses that we have." (Powell at Brookings, 11:45-12:45).

In early statements Mnuchin seemed to agree with Powell, describing the Fed programs as providing trillions of dollars to the economy with the Treasury "putting up money to support the credit for the Fed." However, he later seemed to retreat from initial statements, calling into question whether he was willing to let the Treasury's investments absorb losses from the programs: "We are looking at it in a base case scenario that we recover our money."

The lack of clarity added to the debate of whether the programs' terms were liberal enough to ensure that aid reached the broad array of intended participants. It wasn't until May 19 that Mnuchin put the discussion to rest and provided clarity. "The answer is absolutely yes," Mnuchin said in response to questions from legislators in a virtual hearing of the Senate Banking Committee. "By definition that capital is at risk, and we are fully prepared to take losses, in certain scenarios, on that capital." See a related YPFS Blog here.

The Fed has made available trillions of dollars in liquidity using its traditional monetary policy tools and emergency Section 13(3) powers. Chairman Powell has been clear about the plan for use of these emergency tools, which, prior to the GFC, had not been used for 70 years: "The Fed will use these tools for as long as is necessary until the virus is overcome and when the emergency is over, those tools will be put away." Secretary Mnuchin has said that he will commit additional funds to the Fed programs if needed.

Market commentary and a recent Gallup poll indicate that confidence in the Chairman and the Fed is strong. Fifty eight percent (58%) of respondents stated that they had a "great deal or fair amount" of confidence in the Chairman to do what was right for the economy. Secretary Mnuchin garnered a similar confidence rating of 51%. The ratings received by Powell and Mnuchin were higher than those for the President, and the Congress. The current ratings are significantly above the 30% rating (excellent/good job) that the Fed received in July 2009, while still taming the GFC. It was rated the lowest of nine different agencies at the time, including the Internal Revenue Service.

Clarify roles

During the GFC, the Fed had a long lead during which it was the sole authority with the resources to address market distress. It was criticized for consulting with the Treasury when exercising its authority; this was before Dodd-Frank essentially codified this practice. Fed officials have explained this by citing the benefits of governmental coordination, presenting a united front to the public, and a premonition that in a worst-case scenario the Fed's lending authority might be insufficient to quell a full-scale crisis. Fiscal authority ultimately was required, most notably, the $700 billion Troubled Asset Recovery Plan (TARP) passed by Congress in October 2008.

In the current crisis, given the compressed nature of its onset, the fiscal authority has been engaged almost from the beginning. Congress passed the CARES Act on March 27, which provided for direct payments and some loans to individuals and businesses, such as the Small

Business Administration's Payroll Protection Program, assistance to airlines, and direct payments to individuals. Secretary Mnuchin has been the main spokesperson regarding these supports.

The CARES Act also provided $454 billion that the Secretary could use in coordination with the Fed to establish programs under its Section 13(3) authority. Under Section 13(3), as amended by the Dodd-Frank Act, when the Fed triggers its emergency authorities the Chairman is required to consult with and get approval from the Secretary for any proposed program. Mnuchin has approved the nine programs proposed by the Fed and has backed several of them with credit support ($20 billion) and equity investments ($195 billion).

Chairman Powell has consistently explained the complementarity between the Fed's role (monetary policy) and that of the Treasury (fiscal)[5] and the shared responsibility for financial stability. Powell has also stressed that the Fed's emergency Section 13(3) tools were activated with the "approval and support of the Congress and Treasury," that they are "lending tools," and that "it fully expects its loans to be repaid." (Brookings 2020). Chairman Powell has also emphasized that as powerful as they are, the Fed's emergency authorities may not be able to help everyone. Other lending assistance, and non-lending assistance such as grants and direct payments, come from the fiscal authority of the Congress and Treasury.

At different times we have heard the Chairman toss the ball back over to the Treasury as he did on May 13, 2020, suggesting that more fiscal support might be needed if the economic effects are prolonged: "Additional fiscal support could be costly but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery." Ultimately, delineating clear roles can create areas of accountability so that each entity is judged on its responsibilities and what it can do.

Foster Accountability. Admit mistakes and fix them when they occur.

During the GFC the government implemented several programs designed to provide relief to homeowners, by incentivizing mortgage servicers to work with homeowners to refinance mortgages to avoid foreclosure. The administration and results of some of these programs were debated and may have added to an unbalanced view of the government's actions.

Fast forward to the COVID-19 crisis; some programs have likewise been questioned. When it was exposed that numerous large, publicly traded companies had received (forgivable) loans under the Small Business Administration's Payroll Protection Program (PPP), which had been announced as a key resource to keep small and medium-sized businesses afloat, Secretary Mnuchin said that was not what was intended. He actively sought to have several corporations publicly return the funds, supported set-asides for smaller financial institutions in the new PPP tranche of $310 billion, and threatened to investigate any borrower who abused the program. (See a YPFS blog on the recent changes to the PPP.)

The government has set high expectations for fighting this crisis. The Fed and Treasury have deployed programs of unprecedented number and scope in record speed; there are bound to be missteps and errors. It is not sufficient, however, for the government to lessen diligence once

programs are implemented, or hand off the administration of, and responsibility for, programs involving trillions of dollars of taxpayer funds to banks or other third parties who pick the winners and losers according to their interpretation of the government's criteria or administrative ease, at the risk of possibly distorting the intended outcomes.

The clearer such rules are, and the more effort expended by the government to ensure that they are followed as intended, or amended if advisable, the more credible the government and the programs are likely to be perceived.

There are likely to be other areas that may require such attention, for example, the friction between the terms of the PPP and the enhanced unemployment benefits, and the potential fallout from broad based rental and eviction forbearance. The longer shelter-in-place orders and high unemployment persists, it may be impossible for millions of individuals to pay months of back rent once the moratoria expire. How the government addresses such issues has the potential to become a broken promise or a last-minute save; either result could have a long-lasting impact on our socio-economic and political future.

Do not underestimate the public. Speak to all Americans.

Because the current crisis originated from a pandemic requiring government-imposed economic shutdowns to mitigate the health crisis, interventions to support the economy and lessen the economic fallout from those efforts have also been broad-based. For two months, businesses, schools, retail establishments, and entertainment venues have been shuttered and tens of millions have lost their jobs. The government's response has been robust, making trillions of dollars available to businesses, communities, and individuals in record speed. Still, the shut-down has the potential to impact almost every citizen, and many are vulnerable and worried. A Fed survey recently reported that "[a]mong people who were working in February, almost 40 percent of those in households making less than $40,000 a year had lost a job in March." A recent Pew survey found that 77% of Americans believe the coronavirus will be a threat to their personal financial situations, while a Gallup poll showed that 48% are worried about experiencing severe financial problems.

The government faces a significant challenge to mitigate the impact of its shut-down order and maintain credibility, while continuing to fight the virus. However, success does not require perfection. Criticisms of the government's actions during the GFC did not focus on errors per se but were aimed at programs (like the bank recapitalization and AIG restructuring) that were perceived as having taken too much risk with taxpayers' money, lacking a general sense of fairness, and failing to provide an appropriate level of transparency. Many felt that they had been betrayed when their government bailed out Wall Street banks while ordinary Americans lost their jobs and homes on Main Street. Had the government been able to convince the American people that the bank rescues were necessary to protect their pensions and maintain their school arts programs, perceptions about government, big business and trust might have been different.

The GFC involved complicated financial issues that were challenging for even Congress and the media to understand and with which most Americans were unfamiliar: mortgage securitization, collateralized debt obligations, shadow banking, and derivatives. Since most of the programs implemented by the Fed were directed at the financial industry, government officials and their press releases used financial industry language. In the heat of the battle, only limited efforts were made to explain to the average citizen the connection among the collapsing financial system, the massive rescue actions, and the basic credit cycle underpinning car buying, vacations, pensions, and life insurance.

One exception is the government's assistance to General Motors and Chrysler and other industry entities, which involved government commitments of $80 billion and assistance negotiating concessions from unions, pension plans, and investors. The Obama administration communicated the rescue of the auto companies in a more detailed and straightforward manner than it did some of the rescues of large financial organizations; at one point a video was even made. Even though the auto rescue is the only part of the GFC rescues in which the government lost money ($9.3 billion), it has come to be perceived far more favorably than the bank recapitalizations, which remain highly disfavored.

The government's current efforts to prop up the economy and citizenry until economic activity can safely resume are very broad-based and recognize that many stakeholders are impacted. To be optimally effective, the government's communications must do the same. One of the country's foremost experts on crisis communication, Timothy Coombs, writes:

"The goal of crisis communication is to reduce the damage a crisis inflicts on an organization and its stakeholders …too often there is too much focus on the organization. Crisis teams must ensure the physical safety and psychological well-being to stakeholders affected by the crisis." (Coombs, p. 136)

If we think of the government as the "organization" and the economy, industry, communities, and individuals as the "stakeholders," a rubric evolves where one of the guiding principles in managing and communicating crisis-fighting efforts is to minimize harm to the stakeholders. This can be done by adhering to the lessons set forth above and by keeping all stakeholders and the big picture always in mind.

Americans have been asked by their government to make significant sacrifices to defeat the pandemic. The government should do everything in its power to honor those sacrifices and minimize negative impacts on the economy, communities and households in as effective and fair a manner as possible. If it does, it will prove that its current positive Gallup Poll ratings are deserved, and those ratings may even improve. If it does not, it risks criticisms, negative market reactions, and claims of betrayal that may have lasting impact.

1. "The effects of the coronavirus will weigh on economic activity in the near term and pose risks to the economic outlook." (FOMC PR March 15, 2020)

2. “The Federal Reserve is carefully monitoring credit markets and is prepared to use its full range of tools to support the flow of credit to households and businesses and thereby promote its maximum employment and price stability goals.” (Fed PR March 15, 2020).

3. One of the nine programs is the Payroll Protection Plan Liquidity Facility, which provides loans to financial institutions to fund Small Business Administration-guaranteed Payroll Protection Plan (PPP) loans to small and medium-sized businesses. The Fed accepts the PPP loans as collateral for the PPPLF loans, which are non-recourse. The first round of PPP funding was depleted and Congress authorized a $310 billion second round of funding to restart the program increasing the potential under the nine programs to $2.6 billion from the original $2.3 billion.

4. The Term Asset-Backed Securities Loan Facility, which was established by the Federal Reserve on May 12th prior to the passage of the CARES Act is supported by a $10 billion Treasury equity investment from the Exchange Stabilization Fund.

5. For example, “The Fed lowered interest rates, provided liquidity to banks and foreign central banks to keep the credit markets open and the flow of dollars steady, and it buys massive amounts of debt.” (Brookings 2020).