

A Disgrace

This month's issue was meant to discuss public policy in China. However, I have just listened to an interview with Hunter Harrison, CN's former CEO, in which he discussed the importance of leadership. This is a subject about which he knows something given his contribution to growing CN's market value from around \$4-billion to \$60-billion.

What astounds me, annoys me really, is the lack of leadership currently on display by most of the western world's political elite. Given the obvious relationship between public policy and the leadership responsible for it, I ask your indulgence in waiting till next month for the China discussion.

What happened? We, the world, seemed to be throwing off the malaise of the global recession, albeit a recession whose impacts were unevenly dispersed, and then bang-o! - Greece steals the show. Now all of a sudden we are seriously threatened by not just the spectre of a sovereign debt crisis extending to several members of the European Union but a very real concern as to the impact of sovereign defaults on the whole European banking system. How could this have entered, seemingly heretofore unnoticed, onto the world stage with such dramatic effect? Great question.

Maggie Thatcher said something along the lines that the problem with socialism is that you run out of other people's money to spend. But whether it's that so-called bastion of free enterprise, the U.S., or the profligate spenders in Greece, the practice of financing entitlements, benefits and other social support programs has been much more subtle than that. Much too obvious to simply rob Peter to pay Paul, let's just borrow the money to help the Pauls. Maybe no one will notice.

And no one did, for too long. The "bond vigilantes" who emerged early in Clinton's first term of office to remind him of his responsibilities to manage the public purse wisely (and to his credit, he listened) finally woke from their extended sleep and pronounced Greece, Portugal and Spain to be of suspect credit quality. Hell, that's too damn polite. They added the debts of public and private institutions in those countries and got 2.6-trillion dollars. Yep, two thousand, six hundred BILLION dollars. Who is all this debt held by or owed to? Mostly European banks. Down grade this debt and the result sends the banks who hold it (under interna-

tional rules) scurrying for more new capital. Who wants to invest in these banks when such a huge amount of their loan portfolios are suspect? Now you understand the scope of the problem.

Let's get back to why I am annoyed. The retribution game arising out of the financial crisis brought on by the collapse of the U.S. housing market has to some degree justifiably focused on Wall Street. But what about the politicians who urged on Fannie and Freddie to aid and abet the American dream of home ownership, apparently without regard to the ability to actually pay? And what about the regulators who witnessed the explosive growth of AAA rated mortgage backed securities? Oh yes, we're now all blaming the rating agencies.

Here is my point: isn't this the same thing the market has just "noticed" in Europe? Absolutely. It is irresponsible behaviour practiced not just by Wall Street banks but by governments at all levels. And it's a big problem. Big because it's not just the PIGS countries (Portugal, Ireland, Spain and Greece - the most heavily indebted of the EEC countries), it's France and Britain and the United States and Japan and the list goes on. But it's a solvable problem. Leadership got us into the problem and leadership will get us out of it. Hopefully.

Honesty and transparency are great places to start. Those protesting on the streets in Athens, Madrid or Berlin need to be engaged in a dialogue in which it is made plain there is no one from whom the government, their government, can borrow to finance benefit schemes which cannot be supported by the current revenues of the state. This is the same theory which supports limits to the individual borrowing to pay one's living expenses. On a temporary basis, such activity might be justified but when it becomes structural, it's unsustainable. In the same way the individual can't print money to finance his or her way out of the problem, neither can the state. Attempts to do so, such as have been witnessed in Argentine and Germany in the not-too distant past, led to rampant inflation and huge distress.

Leadership at the corporate level requires a good plan, effective communication of that plan and then focus. Please, political elite, try and get this right. It's pretty important. **I ABM**



John Risley

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In addition to his international business interests as president of holding company, Clearwater Fine Foods Inc., John Risley regularly engages in policy debate as a member of the World Presidents' Organization, the Chief Executives Organization and as a director on the Board of the Canadian Council of Chief Executives. Mr. Risley is also a graduate of the Harvard University Presidents' Program in Leadership and Chair of the Canadian Youth Business Foundation. If you have suggestions for topics you would like the Devil's Advocate to address in future columns, send your ideas to: dchafe@atlanticbusinessmagazine.com. The views expressed in this column are those of the author and not necessarily those of *Atlantic Business Magazine*.