

John Micklethwait says the economic crisis was inevitable and anyone looking at the recent business history of the tech and housing bubbles should not have been completely surprised.



JOHN MICKLETHWAIT WHAT WE HAVE LEARNED FROM THE CRISIS AND WHAT LIES AHEAD

BY PHILIP FINE

The Editor-in-Chief of the influential British magazine *The Economist* also believes that we don't need a mass overhaul of our economic system and that those who are asking for it should look closely at the good that globalization and free trade have brought to this generation. "A billion people have emerged from dire poverty. That's one of the great human achievements of all time."

He used the image of a wide U to describe how he thinks we'll be getting out of this current crisis. Down the first part of the U we've gone, and now there will be a long stretch of flatness and little growth before we move upward toward recovery.

He spoke to a Montreal audience at the end of September on the opening night of the National Forum on Management, entitled *Advancing Canada's Competitive Advantage*. The event was hosted by HEC Montréal, and organized by Dr. Jean-Marie Toulouse, former HEC Montréal Director. Mr. Micklethwait's talk, "World Economics and Geopolitics: What We Have Learned from the Crisis and What Lies Ahead," gave a packed room his authoritative and wide-ranging take on current global economics.

John Micklethwait fears protectionism during this time of great unemployment, but he fears deflation even more. He worries that too much political involvement, early stimulus aside, can put our economic houses in disorder and make things worse. *HEC Montréal Mag* had the opportunity to sit down with him before he delivered his keynote address.

HEC Montréal Mag: How do you sum up this economic crisis in terms of what went wrong and who is to blame?

John Micklethwait: What basically went wrong is a very ordinary old-style bubble-cum-debt problem. The reasons for it included monetary policy people keeping interest rates low to make money very cheap. It's partly to do with reserves flooding in from the emerging world. Partly it has to do with the greed and madness of the bankers. I very firmly don't see this as a crisis brought on by deregulation. The epicentre of this mess was the American mortgage market, the most regulated part of any industry anywhere. The bits that were completely unregulated like hedge funds were



fine because they were self policing to some extent. If you do regulate you often create the problems that drive everything. Let me ask: why was there so much stuff off balance sheets? That can't count on regulations.

Infusing huge amounts of cash into the economy by governments, including our own in Canada, seemed to have been the first step in trying to recover. So far, has this proved to be the right decision?

I think it has. All the signs point to the beginnings of a somewhat fragile recovery. Virtually everything around the world that is growing is because of that stimulus. Where I do feel some sympathy is for politicians. If you pump in stimulus, most voters don't really notice it because it's not as if the economy has suddenly gotten brilliant. What they can never register is how bad it might have been if they hadn't had it. That's a much more difficult political act to sell.

What countries best insulated themselves from the worst effects and what measures did they take or what resources did they possess to do this?

You'd be quite hard pressed to say somebody's done better than Canada in this respect. You have a very good banking system in comparison to everyone else. Your government has not spectacularly over-borrowed and you kept some degree of labour market flexibility.

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Which industries do you sense will go through an overhaul in the next decade?

Finance has obviously got further to go. Finance is having something of an Indian summer at the moment where it's got the advantage of very cheap money from the government. The new rules have not come in. It's definitely got the advantage of not having to put away as much capital as it probably should do. Overall, finance is likely to end up to be a smaller industry than it was before. In the long term: cars. There is still massive overcapacity in that industry, so something has to give there. I think property will take time to come back. High-end luxury: There will always be Russian billionaires who will want to buy yachts, but will there be people who will suddenly decide to spend a thousand dollars on a suitcase?

What can business schools do to help influence a new climate and what kind of research do you think they ought to focus on?

Business schools should be teaching about what not to do as much as what to do. If you lived in the era of incredibly cheap and plentiful money, that was not a hard time to run a business for most people. Now suddenly it's much more difficult. Managing in a world where it's not just a question of getting the best return on things, it's actually a question of survival. You and I as consumers are going to spend a lot of the next period trying to get rid of our debt in many countries. Maybe not so much in Canada but in most places. And what are the ramifications of that? The area where the business schools come in is any degree of managerial thinking beyond just some lazy adoption of private-sector ideas.

Where will the leaders come from who offer best practices for these fundamental principles of good business and how can their messages spread globally?

There are examples around the world. European family companies are quite good at managing cash and quite good at taking a long-term point of view. I would dearly love to say China but I'm not entirely sure I can.

Because of government control?

Partly because of government control and partly because a lot of Chinese businesses still have quite a connections element to them, whereby your strength as a businessman is not the fact that you have the best form of accounting and total quality management, it's the fact that (President) Hu Jintao is your grandfather. I still think the dominant model for how to run things is Silicon Valley.

Good business practices seem to be something religion has taken seriously. In your recent book *God is Back: How the global revival of faith is changing the world*, you document how religious groups have used marketing and management techniques to build powerful enterprises. What are some of the best examples of basic business practices successfully used by religion?

I think they offer amazing things about how to segment. They've relentlessly segmented churches: churches for gay bikers, churches for rappers, churches for teenagers. They always have access to a diversity of talent which they use wisely. The ability to go global is something they've done brilliantly and in their use of technology, they're always looking out for new ways to do these things in a somewhat manic way. At the same time they're doing an excellent job of keeping their existing congregations, not just attracting new ones. All those reasons.

When business techniques are brought in, on a grand scale, does it threaten to corrupt or water down an activity, whether it be religion, the arts or education?

There's definitely an element of Disneyfication. If you keep on saying what people want to hear, try to give them a warm, fuzzy feeling, then you run that risk. The fact that the American churches are so healthy is partly because they have to go out and get people to come in and do things. You have to provide people with a service. There is definitely a suspicion that once money takes over anything that is not primarily financial it can cause problems. You can see that in the excesses of modern art, people trying to get something new and shocking and get rid of it quickly for a large amount of money.

Is entrepreneurial spirit the backbone of a healthy economy and what do you think best fosters that spirit?

I think entrepreneurialism is at the complete centre of it and one thing that worries me is some of the bash-the-rich stuff, which is going on particularly in America and in Britain. When I read annual reports, I see endless pages of delightful schoolchildren being led into schoolrooms by the chief executive. That may be a good thing for him to give money to a local school. But I don't like the subliminal message, which is that we are this ghastly oil company and that's really evil and we're purified when we do this. The main good of Bill Gates is not the money he's giving away now, it's what he did to make Microsoft work. The big thing Henry Ford did for society is not paying people five dollars a week; it was creating the Model T, which changed people's lives. The idea that business somehow has to apologize for what it's doing is wrong. The basic thing it does is invaluable. <