

Handouts won't get equity flowing

U. S., Canadian budgets will fail to spur economy

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Excuse me, but am I still in North America, the bastion of private liberty and largely free market capitalism? Because it doesn't feel like it.

The chatter surrounding the astonishingly bloated Canadian and U. S. federal government budgets for the most part is "Where is my share?" I am shocked by the capitulation of business, whose supposed titans are fairly falling over themselves to be effectively nationalized. The financial sector is the most stark example, next to the basket-case auto sector, of what promises to be a long list. It's like the world has never seen a recession. Does anyone really think there is no long-term cost to government handouts, that left-leaning--and probably right-leaning--politicians will not call in their markers on business down the road?

The Harper and Obama governments are attempting not only to flatten the business cycle, but to protect everyone from all pain--a license for invasive and bloated government for decades to come. Sometimes forest fires are good for the forest; they clear out the deadwood. Painful but necessary. Relating to private businesses, one main criticism of the Canadian federal 2009 budget is that the government did not establish or provide capital to a fund to directly invest in starving small and mid-sized enterprises -- in other words, moving toward nationalizing the venture capital and small private equity industries.

"We all know how great the labour-sponsored investment fund concept has worked out, so let's do more!" I'm not saying there aren't some successes in that sector, but the overall return on capital has been dismal, and the net gain to businesses, questionable at best. In my opinion, this is one thing governments should not add to their morbidly obese budgets.

In the current environment, the line between business and government has been obliterated, not just blurred. Bailout fever has created zombie corporations, Citigroup, Bank of America/Merrill Lynch, AIG, GM, Chrysler among them, for whom it is now impossible to determine their fundamental strength and value as independent entities. As a result, general confidence in the economy and business in general, has plummeted creating a vicious circle that threatens to infect strong, healthy and well-managed companies. Canada is much further behind the United States in this trend, but is moving quickly in the same direction.

The mantra of commentators and politicians these days is that the current system has failed and that there is a new paradigm. "Change we can believe in." Sound familiar? What I see is an insidious fresh assault on the private sector by the public sector under cover of the present economic troubles, which will have disastrous long-term effects.

I know times are tough for businesses, particularly small businesses and my comments about toughing out the economy without government handouts are in no way anti-business or anti small business; quite the opposite. Bottom line, the government bailout paradigm is doomed to fail. It never has and never will do what it is intended to -- help struggling businesses. But don't take my word for it. As a student at the University of Chicago in the 1990s, one of my favourite professors was Luigi Zingales, Professor of Entrepreneurship and Finance at the Booth School of Business and a noted authority on entrepreneurship and finance. He and a professor from Northwestern University have created the innovative Financial Trust Index, which measures the trust Americans have in their country's financial leaders and institutions.

Their research is fairly daunting in showing the extent of the decline in trust, the government's role, and how this lack of trust contributes to the financial problems in the economy. It indicates that it can have paralyzing effects on financing and investments.

Bottom line: Low taxes; small, focused government; and a healthy, brutally competitive, open and transparent economy in my view is the only way real capital will start flowing again to small and medium-sized businesses, not to

mention anywhere else. No new paradigms here -- and no quick fixes, unfortunately.

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