LEBANESE RECIPE FOR ECONOMIC HEALTH: GO WITH WHAT YOU KNOW

Whether it is Henry Paulson, Tim Geithner or the yammering dipsticks on CNBC, it seems the there has been a headlong rush to seek analysis, wisdom and solutions from the very self proclaimed geniuses that put the US and the world in the problem to start with. Aren’t there any big bankers/finance ministers that really got it right? Turns out there are, and he comes from a most unexpected place. From the Los Angeles Times comes the story of Riad Toufic Salame:

> Instead, the silver-haired banker became a hero by playing it very, very safe. In 2005, he defied pressure from the Lebanese business community and bucked international trends to issue what now looks like a prophetic decree: a blanket order barring any bank in his country from investing in mortgage-backed securities, which contributed to the most dramatic collapse of financial institutions since the Great Depression.
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> So as major banks in America and Europe were shuttered or partly nationalized and thousands of people in the U.S. financial sector were laid off, Lebanon’s banks had one of their best years ever.
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> Billions in cash continue to pour in to the relative safety of Lebanese savings accounts, with comfy but not extravagant yields of 6%. A nation shunned for years as the quintessential failed state has become a pretty safe bet, or as safe a bet as investors are likely to find in this climate.

Well, that is kind of refreshing, how did Salame do it? By being a rational technocrat, eschewing excesses, turning a deaf ear to cries for irrational rates of return, maintaining tight regulation, imposing conservative balance-sheet requirements, refusing to launder dirty money and, most critically:

> When the real estate boom crested this decade and investors began bundling debt into nebulous financial instruments fueled by easy credit, the pressure was on for Salame to let banks take advantage of the high yields.
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> But Salame steadfastly refused.
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> He says the mortgage-backed securities worried him from the start. He watched curiously as investment bankers engaged in what he calls "rituals" to please the credit ratings agencies and got back such safe assessments of their products. He didn't get it. Why were these considered safe investments? They were just too complicated. They went against a major tradition in Lebanese and Middle Eastern banking: Know to whom you're fronting cash and who's going to pay you back.
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> "We could not really sense who would be responsible in the end to collect these loans," he said. "And we do not perceive banking as being a place to speculate on financial instruments that are not really concrete."

There, that wasn't all that hard was it? Keep it simple, be willing to work and ding the bling. The way to responsibly run a nation's banking system and economy is to adhere to good old fashioned principles of banking, economics and governmental regulation. It is really not hard, in fact it is blindingly simple.

Go with what you know.