PREFACE

Visiting Buenos Aires in March 2001, it was hard not to see the approaching economic catastrophe.

"Closed" signs hung on many shop doors; taxi drivers carried on and on about the dire straits of the country in terms that were dramatic, even allowing for the Argentine penchant for embellishment; the cover of the leading newsmagazine featured a picture of the controversial finance minister wearing a Hannibal Lecter mask, referencing the horror movie *The Silence of the Lambs*, and the question "Did he have to cannibalize the country to save it?"

I had just come from the annual meeting of the Inter-American Development Bank in neighboring Chile, where bankers, ministers, and journalists furrowed their brows over Argentina's financial problems, the Chileans no doubt feeling somewhat smug given their long-standing national rivalry with Argentina.

If you'd seen the numbers—foreign debt rising, dollars leaving the country, reserves plummeting, expensive restructurings that padded bankers' pockets but didn't do much to help Argentina dig out of its hole—you had to know that there was no way Argentina could keep up. With its peso pegged to the dollar, it couldn't easily devalue the currency to jump-start the economy. Investors were selling Argentine bonds en masse; prices had fallen to what in retrospect was a still generous eighty

cents on the dollar. But you didn't have to see the numbers to come to this conclusion.

As a financial journalist specializing in Latin America, a few weeks later I wrote about a proposal, floated by a group of respected academics and Wall Streeters, for Argentina and its creditors to reduce its debt by 30 percent in order to avoid a bigger, chaotic "haircut" later. After I published the article, several Wall Street bankers called me to say that this was what needed to happen, but they couldn't say so in public or they'd be fired. Even though traders spoke about Argentina's pending default as a matter of "when" rather than "if," no bank dared tell its shareholders that it would be the first to voluntarily part with a single penny of what it was owed. Nine months later, the worst came true. Argentina's currency collapsed, and the banks that didn't want to give up 30 percent ended up losing roughly 70 percent of their money.

Fast-forward a decade to Greece. Like Argentina, Greece was trying to paper over its debt problem with a series of bailouts that only postponed the day of reckoning. Other European economies, though not so bad off as Greece, were struggling as well. In spring 2011, I published a paper for the New America Foundation arguing that Greece needed to learn from Argentina's failure to recognize and respond to a highly probable financial catastrophe by restructuring its debt sooner—before it was too late.

The reaction to the Greek problem was very different from the reaction to what happened in 2001: this time investors spoke openly, in public, about what needed to happen in Greece—that is, what Argentina should have done in 2001. It came down to the wire, but early in 2012 Greece's government and its private-sector creditors came to an agreement that kept the country from defaulting on its private debt and bringing Europe and the global economy down with it. The country's government creditors were a different story, which would bring Greece and all of Europe to a new crisis in 2015.

In 2011, the organizers of the Global HR Forum, a Korean organization focused on human-resources challenges, asked me to attend their November conference in Seoul and speak about whether the world faced a new economic crisis. Well, I told them, we hadn't yet

climbed out of the one we were in. We were still dealing with the same mess we'd been in for the past few years. It wasn't just Greece; huge fiscal and trade imbalances in other countries across Europe also threatened to pull the euro apart and drag the global economy along with it. To American eyes, European leaders seemed to be doing no more than muddling through the crisis. They were not making the politically difficult choices that could get them out of trouble. So I spoke about the choices between kicking the can down the road and making tough decisions on some of the biggest issues facing the global economy: growth and austerity, short and long term, fiscal and monetary policy, consumption and investment, cheap labor and human capital, producing goods or knowledge.

When the Greek private-sector deal came through a few months later, the contrast between the story lines of Argentina and Greece got me wondering: What made the difference? How were Greece and its private-sector creditors able to make the proverbial "stitch in time" that prevented a catastrophe for its own economy and threatened to bring down the rest of Europe with it? Those are the questions that planted the seed for writing *The Gray Rhino*. They also would come into play again for Greece, because, despite the breathing room the country won when it cut a deal with banks and hedge funds, it still owed a lot more to the International Monetary Fund and the European Union. These "official" creditors, funded by national governments, ultimately depended on taxpayers—particularly German ones—who balked at doing what the private creditors had done.

Since the release of Nassim Nicholas Taleb's *The Black Swan: The Impact of the Highly Improbable* and its extraordinary timing just ahead of the 2008 financial crisis, many people in financial markets and policy circles have obsessed over Black Swan or Fat Tail crises—that is, events that individually may be highly improbable but which as a group occur far more often than most people realize. Yet those analysts and planners didn't have a similar way to focus their energies on things that were dangerous, obvious, and highly probable. To me, it seemed that behind many Black Swans was a converging set of highly *likely* crises.

As I began to look for examples of Gray Rhinos, it became clear that so many of the big crises of the past had started as highly obvious but ignored threats, and that the biggest challenges today are also obvious but ignored. I began seeing evidence everywhere of clear dangers that were recognized but weren't being addressed, from climate change and financial crisis at the global-policy level to disruptive technologies that reshaped entire industries (as digital technologies did to media, destroying jobs and companies but creating new multibillion-dollar fortunes for founders of new firms) and highly personal problems that may not qualify as high-impact on a global scale but certainly had a profound effect on the individuals facing them. There were so many times when we should have done better at responding to obvious threats: Hurricane Katrina, the 2008 financial crisis, the 2007 Minnesota bridge collapse, cyber attacks, wildfires, water shortages, and other disasters that you'll read about in this book.

As Hurricane Sandy roared up the East Coast in October 2012, I reflected on the storm-warning systems that gave New York several days to prepare. In the aftermath of the storm, it became clear that although emergency-response officials had learned some lessons from the government's disastrous handling of Katrina, there were many examples of people, companies, organizations, and government agencies that had not prepared for the storm. And after Sandy it wasn't at all clear whether the people who had the power to make necessary changes to protect New York in the future would do so.

At about that time, the organizers of the annual meeting of the World Economic Forum in Davos invited me to speak on the theme of "dynamic resilience"—specifically, "weak signals" leading up to crisis situations. It was a perfect chance to reflect further on why we are so bad at responding to evidence of impending disaster. I launched the Gray Rhino concept in January of 2013 with a presentation at Davos, along with the Japanese author and crisis expert William Saito, who was talking about neon swans, events whose fate was sealed by willful collective failure to perceive signals that, in hindsight, become blindingly obvious. Our presentations had a common theme. The problem, ulti-

mately, was not weak signals but weak responses to signals. It was a reluctance to see and act on warning signs that were apparent to not insignificant numbers of people.

When my agent first circulated the proposal for *The Gray Rhino* to editors, several of them responded that it wasn't counterintuitive enough to say that we needed to pay attention to highly obvious crises, because people already know they are there and are dealing with them. That made me realize that I was onto something even more important and frightening than I had realized. In fact, my idea was so counterintuitive that I had to point out, emphatically, that, no, most people and organizations were not handling the biggest threats effectively.

As I researched the book, I also discovered that the flip side of many highly obvious dangers was opportunity. Often, awareness of a threat and a strategy for responding benefited the cynics: in finance, certainly, many investors thrive on the gyrations of markets, making money hand over fist from rubes who throw money into market bubbles, and, again, when market panic sets in. Many times, as with disruptive technologies, threats arose because someone else identified a new opportunity. In other instances, reimagining how to address a risk opens the imagination. In 2014, the Global Commission on the Economy and Climate calculated that the world likely will spend $90 trillion over the next fifteen years just to replace, maintain, and expand the aging infrastructure of its cities in order to meet the demands of growing urban populations. With that in mind, the commission proposed that, instead of just following business as usual, cities use those funds to deploy new technologies to improve growth, create jobs, boost company profits, spur economic development, and save some of the nearly $400 billion in economic output lost annually to the stresses caused by urban sprawl in the United States alone.

Under the Knife

Solutions to 30,000-foot-high financial, geopolitical, and giant corporate crises are susceptible to the same human tendency toward procrastination as the most common of everyday challenges. In fact, they are the