

BUSINESS MODELS: BANKSTERS STILL IN DENIAL

✖ There's a lot of bad reporting on the auto announcement from yesterday, most focusing mistakenly (IMO) on Wagoner's ouster and not the plan to move forward and/or the double standard with banksters.

But the worst take, IMO, is that one that claims the auto industry was being forced to adapt to a new business model but the banksters' business model was still fundamentally sound.

Here's one of Josh's readers (a view Josh challenges):

One reader writes: "One easy answer to this question is that the banks have a viable business model. They simply need to stop taking so much risk, and they'll be immensely profitable given the current interests rates they're borrowing at."

And here's a bankster quoted in a WaPo article.

Bert Ely, a banking industry analyst in Alexandria, said the administration will likely exercise its powers in only a limited number of a cases, if at all. Even banks that have received repeated injections of government funds, analysts said, appear to be making some progress, and more importantly, are showing more willingness to respond to new economic realities than the automakers were.

"There is a key difference between GM and Chrysler and the large banks going forward," Ely said. "Those two companies have major questions about their [future] profitability. Whereas the large banks by and large have good

business models going forward. The problem is that they've got to pay for the sins of the past."

Now, I find these takes infuriating for two reasons.

First, it's not clear these people know WTF they're talking about, in terms of business model. Are they suggesting that the Big 2.5 focus on larger cars was the failed business model, in spite of the fact that Honda and Toyota—the favorite poster child for "successful" business model—have now embraced the love of big (and in spite of the fact that Obama's own auto task force demonstrates that middle class buyers favor big)? Or are they suggesting that GM—which has aggressively and successfully expanded into growing markets like China and India—is failing because they're successful overseas? Or are they saying that GM and Chrysler have failed because they have chosen to stay home and do business in a climate that—because they're competing against cars assembled with subsidized health care and pensions—penalize them for remaining in their home country? Or are they saying Chrysler failed because it got looted and discarded by Daimler?

It's easy to say GM and Chrysler have failed—and they definitely made some crappy decisions, particularly in the 1990s (though some of those were perfectly logical, from a business perspective, given the reality of the market and the cost structure of these companies). But these complaints display zero awareness of what the business model in the auto industry really is, or how GM and Ford had already started making changes when events of the last year devastated them.

And then there's the claim, with little reflection, that the banking industry has a successful model.

Now, frankly, I think there are a lot of market pressures that brought us to the collapse that

have gotten little attention. For example, banking regulators in the US have embraced deregulation not just because of Phil Gramm's ideology, but also because the US' leadership position in finance has been under threat internationally and we've deregulated to remain competitive internationally. And while Fannie and Freddie did stupid things, they did them out of competitive pressure. I suspect the same is true of the brokerage houses. The big publicly held finance companies have to engage in the latest scam or lose business and margins to their competitors. But that deregulation and those scams are precisely the things that brought down the finance industry.

And then there are the presumptions such claims make—such as Josh's reader, who assumes banks will continue to have access to virtually free money. Many of the assumptions the banksters make when they claim they've got a viable business model assume the the federal government will continue to coddle them—and will continue to have the ability to. That may not be the case.

One of the better takes on yesterday's auto announcement pointed out that the banksters are denial largely because the Obama Administration is, too.

First, the Obama Administration suffers from cognitive regulatory capture. Former denizens of Wall Street are so ensconced in the Administration that they cannot but see events from a 'Wall Street perspective.' In effect, they operate like a horse with blinders. Their view takes as axiomatic the importance and needed continued existence of the big banks that they dismiss alternative workout solutions out of hand.

I argued last week that the banksters need someone like Steven Rattner who doesn't know shit about their industry to assess their

business model.

But as this graphic makes clear (the graphic for 2009 is above, but click through to see how this list has changed over the last decade—you will be fascinated) US banks have lost a great deal of their dominant position (h/t Tom Ricks). At least by market capitalization—one of the measures people focus on to claim GM a failure—US banks' business model is failing just as spectacularly as is GM. I'm not convinced that means we ought to do more deregulation. But it is high time we stop assuming the banks are healthy but for a few crummy decisions.