Too Big To Fail?

FAILURE

HARVESTING VOTES

"I can't give you a sure-fire formula for success, but I can give you a formula for failure: try to please everybody all the time."
- Herbert Bayard Swope

Governments' quest to please special interest groups and other potential voters cause them to panic and then drive them to hand out funds to businesses with failed track records.

I think General Motors' failure flows out of their leaders' myopia, which leads them to *work failed plans* irrespective of outcomes. They haven't learned from their competition or their repeated errors.

PANIC & FEAR

"Panic is a sudden desertion of us, and a going over to the enemy of our imagination."

"We fear things in proportion to our ignorance of them."

- Christian Nevell Bovee

Governments' panic reaction to dole out welfare to General Motors and Chrysler discriminates against other domestic manufacturers who haven't failed... and could cause some to fail!

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Michel is a happy GM car owner. In November 2008, Michel changed his '98, problem-free GM-made, SAAB 95, for a new '08 SAAB 95 Aero.

A survival strategy: Grow to a scale where you are deemed "too big to fail!"

Can Governments successfully restructure failed businesses?

Are some companies "too big to fail"? "Yes," say some politicians. The US Government claims it *saved* AIG, General Motors (GM) and Chrysler because these companies were too big to fail. Now, the US Government hopes its proposal to regulate finance companies will prevent these companies from reaching this undefined state.

In this letter, I comment on GM & Chrysler, but principles apply to the finance sector, too.

This is my thesis: If segments or all of a business is structurally unsound, such as sections of AIG and GM, injecting Government money in these businesses delays their inevitable partial or total demise and discriminates against their competition.

Irrespective of size, Governments shouldn't get involved with failing businesses. Let them restructure or die, but hold them accountable to honour obligations to their workforce. Intervening to *save* them: (a) enables their failed policies and practices (b) distorts markets—could reduce competitors' labour relations advantage, and (c) rewards incompetent and inept CEO's, and boards of directors.

Let's look at this matter more closely. Have you ever wondered what "too big to fail" means? Each time I hear Governments and union leaders mention this phrase, I cringe, and then ask: "What am I missing"?

General Motors and Chrysler failed! They were huge, but they failed! Several measures show this: Poor returns to their shareholders; bondholders' billion dollars losses;, and most important, steady, significant market share erosion—the public rejected their automobiles, in droves!

In 1970, GM had almost 60% of the U.S. automobile market; imports accounting for less than 10%. Today, GM's market share is slightly above 20%, while imports and domestically produced foreign brands dominate the market. Clearly, the marketplace rejected GM and Chrysler's products in favour of Toyota, Honda, and others.

Since 2006, GM has been technically bankrupt; with negative equity. That's another failure indicator!

Money alone can't fix GM

Should Government guide GM's restructuring?

GM's 2009 bankruptcy filing showed negative equity of about $90 billion: it owed $172.81 billion and had $82.29 billion assets (things of value). That's failure; an inability to stem a continuing cash drain! Why reward them with more money? Previously, money didn't solve their problems! Besides, why fire *only* their inept CEO? What about others who presided over this disaster?

But the most ridiculous part of this sad episode is the US Government, as majority shareholder of the new GM, thinks it can guide GM's restructuring, and lead it to viability! Really? Governments as major shareholders? That's a failed recipe! Governments should provide the environment for businesses to operate, they shouldn't own businesses. They should level the playing field, not skew it to benefit structurally unsound, failed businesses.

The US and Canadian (their minority partner in the new GM) Governments epitomize waste and excess. Politicians, left, right, centre, meddle, play politics get re-elected and justify significant waste. Look how poorly they handle services they run!

Too Big To Fail

Unions try to get managements to guarantee jobs

The marketplace decides which jobs will survive

This is Chrysler's second time seeking Government funds. Since 1998, two other *rescue* attempts failed. The 1998, *$36 billion* merger with Daimler Benz, failed. So did Cerberus Capital Management's 2007, *$7.4 billion,* mostly cash, buy of 80% of Chrysler from Daimler.

In Chrysler's first welfare deal from the US Government, according to *Time,* 20 August 1979, GM's Chairman Thomas A. Murphy, attacked Chrysler's federal help as "a basic challenge to the philosophy of America." How times have changed!

So, what does "too big to fail" mean to politicians and union leaders? Merely a call to appease a relatively small, but perceived large concentration of potential voters! Politicians don't accept that without Government intervention, other companies could pick up pieces of GM and Chrysler, restructure them, and provide stable employment in a structurally sound business environment. Governments ignore the fact that their intervention discriminates against GM and Chrysler's competitors!

We must be sensitive to people, encourage, and where feasible, provide retraining to those folks who lose jobs. But we mustn't hang onto failed companies. Union leaders must understand that jobs' guarantees haven't, and won't work. Look at GM! In the 1970's their US workforce was almost 620,000. Today, worldwide, they employ around 230,000! One of GM (and Chrysler's) issues was the recently ended jobs bank, which paid laid off workers most of their pay and benefits — sometimes for years! No doubt, when management accepted this arrangement, unions claimed "victory"! But, businesses that enter these unwise agreements, will go bust! *It's the market that decides which jobs survive!*

What should Governments do?

Should they sit back and let the "market" work? Isn't it important to *save* jobs? Let's consider three factors: **regulations, retraining, and renewal.**

Governments need to ***regulate*** *businesses with simple, specific, effective, enforceable employment, safety, health, and environmental standards that do not stifle creativity or dampen entrepreneurialism. As well, they should regulate to protect the weak from blatant exploitation.*

The sub prime mortgage debacle is an excellent example of exploitation flowing out of unfettered free enterprise. Greed prevailed all around; companies and individuals went after each other for *more.* That's our nature! Recall Luke 12:15 where Jesus said: "... "Watch out! Be on your guard against all kinds of greed ..."

In these times, rather than panic, *Governments should take a longer view and focus on assisting with* ***retraining*** *displaced workers, and stop trying to maintain employment in failed businesses.*

They must accept that giving money to businesses that cling to failed business models, that ignore market messages, or ignore structural issues, neither create nor save jobs. Sadly, Governments try to appease voters in locations where factories should close, and so, they do not let some uneconomic plants close. Take GM's Sainte-Thérèse Assembly plant. In the 1980's, GM got Government funds to keep it open, but it closed in 2002. Was that the best use of our funds?

In 32 years in business, I saw Governments dole-out funds to *save* jobs, which inevitably disappeared as businesses restructured and structurally unsound businesses died. Though these businesses died, often, individual pieces survived. That's why, Governments shouldn't panic, but let others try to turn around failing businesses. This could cause major, but manageable short term dislocations.

Governments' taxation policies not only should attract initial investments, but should *encourage investments'* ***renewal,*** *and retooling to promote efficiency and effectiveness.* This is how Governments *create* jobs.

Shareholders have a role too

A key issue to curb corporate misadventures is *early and more forceful shareholders' actions.* At a minimum, we need a shareholders' *bill of rights,* which should include simple procedures to change boards of directors and to input on CEO's compensation. A major shareholder pushed GM's management to shift from its failed business model. He failed; but hopefully, this will encourage, not discourage, more proactivity.

Even so, for years, GM's technical bankruptcy was obvious! So too, was its steady market share erosion. Neither caused widespread shareholder outrage, and so, GM's board and management sauntered on and self destructed!

The cost of too big to fail

On 10 July, the *New GM came out of bankruptcy protection with US$ 70 billion injection from the US (60) and Canadian Governments (10),* but with the same senior management, same unions, and more platitudes about change! Is this the best use of our funds? At what cost do we *save* jobs, many of which might disappear? Isn't this validating prior self-destructive union demands to which GM's inept management agreed? Isn't this an unfair competitive advantage?

The *too big to fail* attitude rewarded those who cried the loudest. Can the folks who caused failure, engineer success? I think not! Still, let's pray management and unions get it and stop trying to *save* jobs using our funds, but rather, focus on *producing quality products and services,* so markets will want GM and Chrysler's automobiles.

