

# THE BANKSTER'S STENOGRAPHER CLAIMS CREDIT FOR PRIVATE EQUITY

For some reason, Andrew Ross Sorkin felt the need to weigh in on the debate over whether Rick Wagoner or Team Auto should get credit for GM's turnaround.

He probably shouldn't have, seeing as how some of his evidence against Wagoner is that "he wasn't able or willing to cull failing brands like Pontiac, for example, or **get his arms around out-of-control legacy costs.**" Steven Rattner himself admits, of course, that Wagoner's the one who negotiated VEBA with the UAW and got the legacy costs of retiree health care off of GM's books, even if he doesn't emphasize that point.

But what's most hysterical is that Sorkin's defense of private equity guys...

Indeed, the private equity industry and its many lobbyists have been fighting for years to prove their value to the public, producing all sorts of studies and white papers to back up their claims. And yet, Mr. Gladwell gets to the nub of the image problem confronting the industry in the blink of a sentence (pun intended): "The mythology of the business is that the specialists who swoop in from Wall Street are not economic opportunists, buying, stripping and selling companies in order to extract millions in fees, but architects of rebirth."

[snip]

He's right: the GM turnaround is ultimately an act of financial engineering. While "financial

engineering” has become an expletive of sorts, in this case it is actually a good thing. Indeed, G.M.’s turnaround should become a case study for when and why the private equity and restructuring business can work.

[snip]

But for certain companies – and only in certain circumstances – there is something to be said about bringing in an outsider with this credential on the résumé: financial engineering experience.

... doesn’t once mention that other company that got bailed out by Team Auto: ~~Chrysler~~ Cerberus.

For what it’s worth, I am willing to concede (and have) that it makes sense to bring in guys with “financial engineering” experience to revamp failed businesses (though just as critical is having someone with basic business expertise from outside of the culture of the industry in question).

But one of the biggest differences between Cerberus’ spectacular failure with Chrysler and Team Auto’s initial success with ~~Chrysler~~ Cerberus and GM is that Team Auto was not trying to suck the last bits of value out of a company (as Cerberus was trying to extract the finance part of Chrysler while screwing the manufacturing side).

An astute journalist probably would have acknowledged that point.

Update: This post originally called Sorkin “Aaron,” not “Andrew. Apologies to Aaron Sorkin and thanks to pdaly for pointing out my mistake.