


# JEFF IMMELT'S GE: THE TOO BIGGEST TO FAIL

✘ In my first post on how stupid it was for Obama to pick Jeff Immelt for his election season commission to appear focused on jobs, I looked mostly at how much GE has been outsourcing manufacturing and technology. Though I mentioned GE's status as another TBTF finance company, I didn't explain that in depth.

Mike Konczal has a post in which he corrects Joe Klein's misperception that GE is not another big finance company, and in the process shows how GE was one of the biggest beneficiaries of the government's bailout of shadow banking in 2008-09.

In it, he shows how GE received the second biggest FDIC debt guarantees of any of the big finance firms, after only Citi. He borrows the graphic at the left from a Raj Date paper that also explains how GE leveraged (heh!) its teeny FDIC insured deposits to get a big debt guarantee.



Only a small fraction of GE Capital's funding (some \$24 billion in the middle of 2008) came through FDIC-insured deposits. Despite that, the structure of the FDIC's Debt Guaranty Program enabled GE Capital to issue well more than that (more than \$50 billion) in unsecured debt that was, in effect, taxpayer-guaranteed. In essence, the program was structured in a way that almost uniquely favored a shadow bank like GE – one with a relatively small depository, but with immense unsecured debt that had been issued by the depository's affiliates.

Konczal then goes on to cite another paper explaining why this happened: GE used the credit rating it won in its manufacturing business to make a lot of big finance games possible.

1 run the industrial business for earnings;

**2 add industrial services to cover hollowing out of the industrial base;**

3 buy and sell companies through acquisition and divestment to achieve returns and growth objectives;

4 rely on large-scale acquisition to prevent like-for-like comparisons and to increase opacity and the power of narrative;

**5 grow the financial-services business up to the limit of the company's credit rating;**

6 accept the balance-sheet costs in terms of return on capital but focus on managing return on equity and cost of capital;

7 add financial engineering to smooth earnings and manage growth...

[snip]

If the expansion of GE Capital rested on judgement and controls, it also reflected the structural advantage of the triple-A credit rating, which effectively made the financial business (as user of the credit rating) dependent on the industrial business (as credit-rating generator), and this in turn set limits on how much GE could expand without risking reclassification by credit-rating agencies. GE Industrial may be a low-growth business but it has high margins, is consistently profitable over the cycle and has funded almost all of the dividends that GE Consolidated has paid out, as well as providing the funds for acquisitions and repayment of debt. This solid industrial base is the basis for GE's triple-A credit rating, which allows GE Capital to borrow

cheaply the large sums of money that it lends on to consumers and commercial customers... [my emphasis]

Konczal summarizes the business model that Obama tapped, through Immelt, to build American jobs and competitiveness this way:

GE has been at the forefront of blurring a “financial services”-centric model of business onto the remains of a hollowed out manufacturing base, one kept in a minimal state just strong enough to qualify for high credit scoring.

In other words, Immelt and GE aren't about building the jobs American needs (for graphic representation of that, see this post). Rather, they're about transforming the fruits of American manufacturing into yet more destabilizing casino games.

And **that's** what Obama picked today to lead his election-season effort to appear serious about job creation.

Sure, maybe it'll fool the Joke Lines of the world into believing outsourcing to China is a solution to America's job crisis. But those of us in flyover country seeing that jobs crisis up close are smarter than all that.