Why the banks make business fume
Jonathan Guthrie

Did your witless younger brother ever borrow your shiny new bike when you were a kid? Witless younger brothers being what they are, he probably returned it with the paint scratched and the bell missing. After that, you doubtless delighted in wearing a T-shirt with the legend "I'm With Stupid" when you played together.

Many bosses of non-financial businesses harbour a similar grudge towards investment banks. They may yet don derogatory T-shirts. The world financial system, they point out, was working just fine until bankers rode it pell-mell into the brick wall of the subprime crisis. Now credit and consumer confidence are ebbing, to the likely detriment of company profits. State intervention, which free marketeers have argued against for centuries, has been royally legitimised. Investment bankers, who could use some new business from corporate clients, no longer look like the smartest guys in the room.

"O wad some Power the giftie gie us To see oursels as ithers see us," wrote the Scottish poet, Robert Burns. For bankers, perspective of an unflattering kind is offered by manufacturing bosses. Such as David Grove, chairman of Hill & Smith, a UK company that, appropriately enough, makes crash barriers. "Many banks have utterly mismanaged their businesses," he says. "It is the third time in my lifetime that they have tried to mess up the economy."

Mr Grove is incredulous at the embroilment of big banks in mortgages granted to "ninja" borrowers with no incomes, jobs or assets. "I wouldn't sell goods to customers like that," he says. William McGrath, chief executive of the British cooker company Aga, is similarly perplexed by the fashion show of emperors' new clothes that was subprime securitisation. "The argument was that if you didn't understand [the securities] you must be very stupid," he says. "But clearly many bankers did not understand them either."

Mr McGrath, a former banker himself, says that the "sea defences" of consumer businesses "will be tested by a difficult year, because investment bankers made dubious investments and are now repricing products [such as mortgages] to recoup their losses".

Angela Knight, chief executive of the British Bankers Association, defends state support for troubled banks, saying "a requirement to maintain financial stability means the authorities should act". But UK manufacturers remain dismayed by the rescue of Northern Rock and emergency lending to other banks. "The idea that the Bank of England should bail the banks out does not wash," says Gerry Beetles, who runs Davis Derby, a mining equipment manufacturer. "No one would help me if I was in trouble."

State intervention is inspiring similar rancour among American non-financial businesses, according to Martin Regalia, chief economist of the US Chamber of Commerce. He says: “There are rumblings from members who do not want to pick up the tab for bad decisions by banks and borrowers. If [intervention] triggers tax increases, we will hear a lot more from them.”

Mr Regalia believes American business owners are suspicious of calls from banks for mortgage borrowers and investors to receive state aid. “The market should be free to punish idiocy with more than a slap on the wrist,” he says.

The resurgence of dirigisme has also come as a shock to us hard-working, pro-markets newspaper columnists. For years we have earned our crust by calling for the state to roll back its frontiers. But the bail-outs of Northern Rock and Bear Stearns suggest that the state must sometimes roll its frontiers forward to protect the rickety construct that is the market. That will make government interference harder to deflect in future. The victims are unlikely to feel as sanguine as one City of London investment bank boss, who told me: “One has to accept that markets now and then need reining back, or regulating to keep them in line.”

Should the banks apologise to other businesses? Not according to Lord Bell, who states: “Saying sorry is fatuous and achieves nothing.” But the veteran public relations man is critical of how the banking industry has managed its image in the subprime crisis. “You have to start by acknowledging there is a problem, and the banks don’t,” he says: “Banks do not think other people’s opinions matter a damn.”

Indeed, leafing through recent announcements by banks that have made subprime write-offs, prior knowledge is needed to realise they were suffering the pain that bad decisions bring. UBS was just “maintaining its position as one of the world’s strongest and best-capitalised banks” when it launched a SFr15bn (€9.4bn, £7.5bn) rights issue. Merrill Lynch thanked chief executive Stan O’Neal for “leading a major transformation” when he was jettisoned last autumn. Only Vikram Pandit, the incoming Citigroup boss, seemed penitent, describing a fourth quarter net loss as “clearly unacceptable”.

Banks with subprime exposure should acknowledge their errors with a “whoops” if not a “sorry”. It would temper the animosity of critics within business, such as the manufacturing type who is “looking forward to banks getting a good kicking from the regulators”. Lord Bell believes investment banks need to rebuild confidence with company bosses on a one-to-one basis. Their reputation for brains is currently as impaired as their subprime assets. When the tide went out, not only were some of the swimmers wearing no trunks. In the eyes of other businesses they were also revealed as poorly endowed – intellectually, that is.

Fonte: Financial Times, 10 Apr. 2008, p. 11.