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General Motors: success, redefined

By Jonathan Michaels

On Dec. 9, 2013, the U.S. Treasury sold its last share of General Motors stock, concluding its four-year investment into the automaker that stirred considerable debate. At the high water mark, the U.S. owned 61 percent of GM, placing itself squarely in the midst of private competition, and forcing it to compete against those it was charged with protecting.

The total investment in GM reached $49.5 billion — an amount according to RSMeans Data, a leading supplier of U.S. construction costing, sufficient to build 9,000 new elementary schools. But GM was too big to fail, or at least that's how it was billed, causing legitimate concern to rip through the nation about what would happen if nothing was done. Lehman Brothers had just failed — a 158-year-old company that had withstood two world wars and the Great Depression — and panic replaced dispassionate reasoning among America's elite thinkers.

In fairness, time for decision-making was unimaginably short, creating snap decisions of enormous consequence. Merrill Lynch was sold in a weekend; AIG was rescued with an $85 billion loan on a Tuesday night. One can only imagine the pressure the decision-makers were under to not let the economy fail in an instant.

Adding to the panic was a November 2008 report by the Center for Automotive Research (CAR), a Detroit-based consulting firm, stressing the importance of bailing out the Detroit automakers. The CAR report opined that 3 million jobs would be lost among the automakers and their supply chains if a bailout of the Detroit Three was not immediately implemented.

The CAR report anticipated the worst-case scenario: a complete liquidation of GM, Ford and Chrysler. In truth, however, the loss would have likely been far less severe. Ford passed on the opportunity to take a bailout, and it was fine; and GM and Chrysler would have likely been sold off in parts to competitive buyers through a Chapter 11 reorganization.

A complete shutdown of the Detroit Three and their supply chains was highly unlikely, leaving open the question of what would have happened had the U.S. not intervened. Followers of Adam Smith — the economist long credited with creating the capitalist theory — would argue that GM and Chrysler should have fallen to market forces. The multitude of new companies that would have emerged would have been leaner, stronger and more capable of participating in a competitive landscape.

The harsh truth is that the bailout was only necessary because the companies had been complacent for decades, leading to billions in losses. If there is any doubt on this point, consider that in 1969, GM enjoyed 46 percent of the U.S. market share; in 2009, its share was 19 percent. For the thousands of companies that were not bailed out during the economic cleansing, on an intellectual level it is difficult to understand why they were allowed to fail, when the automakers who were equally deserving of failure were not.

But the threat of widespread unemployment was too great to risk, and the time to decide was too short to contemplate, leading to the decision to not let GM and Chrysler fail. And the decision may have been the right one, but it was not without cost or consequence.

After the Treasury's sale of the last share of GM stock last month, the investment in GM resulted in a net loss to taxpayers of $10.5 billion. The investment in Chrysler was also bad, but not nearly as costly: The U.S. only lost $1.3 billion on that investment.

Critics and supporters alike can participate in the debate about whether saving the automotive industry was the right thing to do. The White House has put its usual spin on the $11.8 billion loss, stating that "GM has now repaid every taxpayer dollar my administration committed to its rescue, plus billions invested by the previous administration," and that "Chrysler has repaid every dime and more of what it owes American taxpayers for their support during my presidency."

Of course, these are only half-truths; the statements fail to account for moneys lent at the end of George W. Bush's administration, and in the case of GM, it fails to account for the investment that was converted to stock and sold at a $10.5 billion loss. But the point remains that the Treasury considers its parlay into the private sector to be an overwhelming success.

Yet like statistics, success can be defined by the person manipulating it. To be sure, the Detroit automakers are doing far better now, but that does not answer the question of whether we are better off following the Treasury's intervention into the private market. And there is an important companion to this question: what of the Treasury's role of venture capital investor in automotive startups.

Consider that in November 2013, Fisker Automotive filed for bankruptcy, handing the Treasury a $139 million loss on its at-risk investment. What's worse, the remains of Fisker are being fought over by two Chinese companies, Hybrid Tech Holdings and Wanxiang Group. One way of looking at this is that the U.S. paid $139 million to enrich the Chinese with electric car technology.

In another example, battery maker A123 filed bankruptcy after receiving $263 million from the Treasury, with its parts also being sold off in bankruptcy court to the Chinese-based Wanxiang. Certainly not the result President Barack Obama envisioned when he made the statement, "I don't want those jobs taking root in places like China, I want those jobs taking root in places like [Colorado]."

While the decision to intervene in the Detroit failure, and to play venture capital investor into automotive startups may have been proper, it is a decision that should be challenged every step of the way. A thin line exists between a government that tries to save for the better of the whole, and one that imposes its will for the better of the people. As Mark Twain once said, "The mania for giving the Government power to meddle with the private affairs of cities or citizens is likely to cause endless trouble."

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