

Taking Taxpayers for a Ride

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GENERAL MOTORS raised more than a few eyebrows last week by announcing plans to repay what it describes as \$6.7 billion in outstanding loans to taxpayers. So provocative was this announcement that it all but overshadowed the real news of the day: G.M. had lost \$1.2 billion since exiting bankruptcy in July, and its fourth-quarter results were expected to be worse.

The company's chief executive, Fritz Henderson, called the repayment plan "a personal commitment." The Obama administration, wardens of the 60 percent taxpayer stake in the company, declared itself "encouraged" by the news. Many commentators followed suit. But in the premature rush to herald the beginning of the end of the government's involvement in the auto industry, a number of key considerations were left out.

For starters, \$6.7 billion doesn't begin to scratch the surface of what G.M. actually owes us. Over the past 12 months, the Treasury has given it some \$52 billion in the form of cash, loans and the purchase of that 60 percent of the company's post-bankruptcy equity. And that number fails to take into account the two bailouts of G.M.'s former lending arm, GMAC, or the \$3 billion spent on the "cash for clunkers program," which doubtless kept the company from posting even deeper losses.

Moreover, G.M. is not, in the strictest sense, paying back taxpayers at all. Rather, it is refunding \$6.7 billion of an

\$18 billion escrow account that was given to it by the government when it emerged from bankruptcy. The rest of that account will be used to cover fourth-quarter losses (including \$2.8 billion pledged for the rescue of G.M.'s major parts supplier, Delphi), repay loans from the Canadian government, and possibly prop up the automaker's shaky European operations. That escrow account is due to expire in June, at which time G.M. will repay what remains of the \$6.7 billion from this week's pledge — and then pocket the estimated \$5.6 billion remainder.

In fairness, G.M. was clear up front that it would not be able to make the taxpayers whole through cash payments alone. Rightly so: for all the talk of slimmed-down cost structures and booming sales in China, G.M. isn't making any profit with which to repay its debts.

The big news here was Mr. Henderson's indication that he might have another way for his company to make things right: an initial public offering of G.M. equity. This, he says, could take place as soon as next year; it would not only free the government and G.M. from their souring embrace, but would also represent G.M.'s best and last opportunity to pay back the public.

Unfortunately, any hope of an I.P.O. completely repaying taxpayers is wildly optimistic. Even before Mr. Henderson hinted at a timeline, a [Government Accountability Office report](#) pointed out that G.M. would have to attract a market

capitalization of \$66.9 billion for taxpayers to recoup the government's investment. Sorry, but that's a pipe dream: G.M. has never been worth more than \$57 billion, and that was in the salad days of 2000.

Shortly after G.M.'s payback announcement, Ron Bloom, the head of President Obama's task force on the auto industry, provided more insight into the G.M. endgame. In relation to the public offering and the government's maintaining its equity share, he [argued](#) that "private markets would like to see us exit this investment, and I think they will be more comfortable if we're on a sustained path out the door than if they think we're going to try to market-time it to maximize return." In short, even an official who negotiated the government's stake in G.M. has abandoned the taxpayer interest in favor of expedient withdrawal.

Mr. Bloom's clear signal that the administration is jumping ship is especially galling in light of the frothy optimism generated by G.M.'s "repayment" announcement. If tens of billions in lost tax dollars is simply the inescapable price of preventing a systemic economic collapse, the White House should tell us so. Instead, it seems to be allowing the perception to settle that G.M. will repay its obligations, while all the while plans are formulated to sell off the taxpayer's portion of the company at any price.

It's tempting to think that the Obama administration understands the political explosiveness of huge taxpayer losses from an initial public offering and will move to mitigate them. But there may be stronger political winds pushing the White House to dump its stake.

For one thing, G.M.'s unexpected decision to not sell its German division, Opel, deeply embarrassed Chancellor Angela Merkel of Germany, a vital ally who happened to be in Washington when the surprise decision was announced. Berlin is now withdrawing some \$2 billion in bridge loans to Opel.

More important, this month's off-year elections indicated that President Obama may have a political weaknesses on the issues of government spending and the economy. Maintaining a majority stake in a struggling G.M. as the 2012 election approaches will only increase the liability. If G.M. has to use taxpayer money to bail out Opel and Daewoo, its Korean division (which lost billions on currency speculation, no less), the issue of bailout money being sent abroad will undoubtedly be a campaign issue.

G.M.'s global interests are far too diverse for it to serve its taxpayer owners faithfully, and it can't afford to subjugate its business prerogatives to the political needs of its major shareholder in the White House. So, unless Americans develop a sudden obsession with G.M.'s \$40,000 Volt electric car just in time for an I.P.O., taxpayers will be stuck with tens of billions of dollars in losses.

Afterward, while our government contemplates its runaway deficit and getting rid of its 8 percent of Chrysler's equity, perhaps we'll get an admission that General Motors still owes the American people. Without one, the relationship between the public and the automaker, and the Obama administration as well, may never be the same.

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