



Written by [Bob Adelman](#) on May 2, 2014

## GM Bailout Cost Taxpayers Far More Than Just \$11 Billion

The *Detroit Free Press*' [announcement on Wednesday](#) that taxpayers lost more on the General Motors bailout in 2009 than originally thought was brief, to the point, and missed most of the real story behind the GM bailout. Taxpayers lost \$11.2 billion following the government's sale of the last of the stock it held in GM following the company's government-assisted bankruptcy and restructuring, according to the announcement.



The key quote from a Treasury spokesman, however, was revealing. Said Adam Hodge: "The goal of Treasury's investment in GM was never to make a profit, but to help save the American auto industry, and by any measure that effort was successful."

Not if one was a bondholder in GM. Not if one believed that a company should be run by experienced automakers and not by government bureaucrats. Not if one believed that unions and their benefits should also be subject to negotiation during bankruptcy. Not if one believed that the Constitution was still valid, preventing the firing of a chief executive by the president of the United States who himself knows little if anything about the auto business — the same man who exposed his vast economic ignorance by remarking how sad it was that automatic elevators had necessarily replaced elevator operators!

Not if one believed that an ordinary bankruptcy and reorganization would have saved GM, rather than the hurried "363" bankruptcy rushed through at the last minute. Not if one was concerned about precedents being set to be used in the future when some entity is deemed by government bureaucrats as too big to fail. Not if one is persuaded that the free market would have rescued GM and turned it into a better company than the one that just suffered downgrades from Wall Street.

Former GM CEO Rick Wagoner was asked to "step aside" when the Obama administration determined, on its own, that Wagoner — a 31-year veteran of the auto business and GM's chief operations officer and former chief financial officer — was no longer fit for duty in the brave new GM conjured by the administration.

Bondholders were cut adrift during the hasty "363" bankruptcy, leaving them with an estimated 20 percent (or less) of their holdings intact, while the unions were given 20 percent of the new GM in exchange for a contribution to the company bailout from its health plan along with a seat on the board.

The company had been losing money in heaps and gobs prior to the enforced rescue: \$10.6 billion in 2005, \$38.7 billion in 2007, and another \$30.9 billion in 2008. Sales in 2008 declined by nearly half from the year before. It was clear that the company was in deep trouble, and for a brief moment, it appeared that the company was going to be forced into regular Chapter 7 bankruptcy and liquidation.

But this was too much of an opportunity for Obama to resist, especially since his precious unions would suffer wage cuts and benefit reductions in such liquidation. Hence the move to rescue GM from the normal operations in a free market which would offer the company to others more fit to run it



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profitably. But, thanks to the government-assisted bailout and reorganization and payoff to the unions, the new GM represents the new paradigm in corporate finance: decimate the bondholders and the stockholders but reward those with close ties to the government. In the process, ignore fairness, justice, and the rule of law.

These are the costs suffered by taxpayers, far beyond the billions counted (and uncounted) as “invested” in the new company.

There are other costs as well. With the recently announced downgrades by two major banks due to recent recalls and its failure to hit profit targets, it is clear that GM is still not an efficiently run, highly profitable company. It is still not building cars that are competitive and profitable to the company, and runs the risk of another bailout in the future. Left alone, the old GM would likely have survived in much different form, being run by more effective managers, without taxpayer assistance. It would be adding to an improving economy rather than continuing to be a drag on it.

These are just some of the costs endured by the taxpayer, both past and present, far beyond the billions announced by the *Detroit Free Press*.

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