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# GM's Phony Bailout Payback

## The company is setting the stage for another taxpayer shakedown

Shikha Dalmia | April 27, 2010

GM CEO Ed Whitacre announced in a *Wall Street Journal* column last Wednesday that his company has paid back its government bailout loan "in full, with interest, years ahead of schedule." He is even running TV ads on all major networks to that effect—a needless expense given that a credulous media is only too happy to parrot his claims for free. *Detroit Free Press*' Mike Thompson, for example, advises bailout proponents to start "warming up their vocal chords" to jeer their opponents with chants of "I told you so."

But before belting out their victory aria, GM-boosters ought to hear the whole story—not just the fairytale version about Government Motors' grand comeback that Whitacre is feeding them.

Uncle Sam gave GM $49.5 billion last summer in aid to finance its bankruptcy. (If it hadn't, the company, which couldn't raise this kind of money from private lenders, would have been forced into liquidation, its assets sold for scrap.) So when Whitacre publishes a column with the headline, "The GM Bailout: Paid Back in Full," most ordinary mortals unfamiliar with bailout minutia would assume that he is alluding to the entire $49.5 billion. That, however, is far from the case.

Because a loan of such a huge amount would have been politically controversial, the Obama administration handed GM only $6.7 billion as a pure loan. (It asked for only a 7 percent interest rate—a very sweet deal considering that GM bonds at that time were trading below junk level.) The vast bulk of the bailout money was transferred to GM through the purchase of 60.8 percent equity stake in the company—arguably an even worse deal for taxpayers than the loan, given that the equity position requires them to bear the risk of the investment without any guaranteed return. (The Canadian government likewise gave GM $1.4 billion as a pure loan, and another $8.1 billion for an 11.7 percent equity stake. The U.S. and Canadian government together own 72.5 percent of the company.)

But when Whitacre says GM has paid back the bailout money in full, he means not the entire $49.5 billion—the loan and the equity. In fact, he avoids all mention of that figure in his column. He means only the $6.7 billion loan amount.

But wait! Even that's not the full story given that GM, which has not yet broken even, much less turned a profit, can't pay even this puny amount from its own earnings.

So how is it paying it?

As it turns out, the Obama administration put $13.4 billion of the aid money as "working capital" in an escrow account when the company was in bankruptcy. The company is using this escrow money—government money—to pay back the government loan.

GM claims that the fact that it is even using the escrow money to pay back the loan instead of using it all to shore itself up shows that it is on the road to recovery. That actually would be a positive development—although hardly one worth hyping in ads and columns—if it were not for a further plot twist.

Sean McAlinden, chief economist at the Ann Arbor-based Center for Automotive Research, points out that the company has applied to the Department of Energy for $10 billion in low (5 percent) interest loan to retool its plants to meet the government's tougher new CAFÉ (Corporate Average Fuel Economy) standards. However, giving GM more taxpayer money on top of the existing bailout would have been a political disaster for the Obama administration and a PR debacle for the company. Paying back the small bailout loan makes the new—and bigger—DOE loan much more feasible.

In short, GM is using government money to pay back government money to get more government money. And at a 2 percent lower interest rate at that. This is a nifty scheme to refinance GM's government debt—not pay it back!

GM boasts that, because it is doing so well, it is paying the $6.7 billion five years ahead of schedule since it was not due until 2015. So will there be an accelerated payback of the rest of the $49.6 billion investment? No. That goal has been pushed back, as it turns out.

In order to recover that investment, the government has to sell its equity. It plans to do that only when GM becomes a publicly traded company once again. GM was hoping to turn a profit by the end of 2010 and float an initial public offering this winter. However, GM Chief Financial Officer Chris Liddell, when queried about that timeline a few days ago, demurred. The offering will be made, he said, "when the markets and the company are ready."

(Take that, taxpayers!)

The reality is that there is no certainty that GM will ever be able to make taxpayers whole. Some analysts such as Center for Automotive Research's Sean McAlinden and Global Insight's George Magliano believe that it will—eventually. McAlinden maintains that this will happen when the company's market capitalization touches $60 billion. (At GM's peak in 2000, this level was only $57 billion.) This is a challenging but not an impossible goal—provided the economy does not dip into another recession, he maintains. Magliano too maintains that the company will be able to pay back taxpayers if the industry is able to ramp up annual vehicle sales from the expected 10.8 million this year to 17 million in 2014 and GM captures 20 percent of these sales.

The General Accountability Office, on the other hand, remains deeply pessimistic. It concluded in a December report (which a more recent April report has said nothing to contradict, despite media spin to the contrary) that: "The Treasury is unlikely to recover the entirety of its investment in Chrysler or GM, given that the companies' values would have to grow substantially more than they have in the past."

Whitacre's bailout payback ploy is a desperate attempt to win back the car-buying public deeply disgusted by the spectacle of GM rattling its tin-cup before Uncle Sam. But the fact of the matter is that the company is still deep in the hole. It might claw its way back—or it might not. But surely it's premature for its media boosters to pop open the champagne bottle without getting their story straight?

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