Written by **Bob Adelmann** on April 19, 2011

Govt to Sell Its GM Stock Before It Declines Further

When the federal government took over General Motors in July of 2009, it was “the only way to avoid an economic calamity,” according to President Obama. Stuffed full of $50 billion of taxpayers’ money, GM began to revive, a little. It had lost an amazing $103 billion over the previous five years, partly by acceding to union demands for generous compensation packages (including payments to workers even when the plants where they worked weren’t even running!), and partly by misreading market conditions and their competition.

After the company’s good assets had been transferred to the new General Motors Company (and the old liabilities transferred to Motors Liquidation Company [bottom logo at left]), its balance sheet was clean, hourly costs were brought closer to those of their competition, and quality control improved. When it looked as if the company had truly turned the corner and announced it was profitable for the first time in years, an Initial Public Offering (IPO) was conducted last November. The shares in the new company were offered at $33 per share and the offering was oversubscribed.

At the time, Steven Rattner, former counselor to Treasury Secretary Timothy Geithner, called the offering a “blow out:”

> The mother of all initial public offerings — that of the refreshed, revitalized and revamped General Motors — went off better than almost anyone expected…

[Using] TARP [money] saved our auto industry, our banking system and derivatively, our entire economy.

Kristin Dziczek, Director of The Center for Automotive Research, said, “You could argue that because the auto industry is one of the most productive and integrated industries, putting [TARP] money there was a better place to put it than job creation in any other sector.”

At first, investors enjoyed a nice ride as the stock rose over the next six weeks to new highs, nearly touching $40 a share early in 2011. But since then the stock as been in virtual free fall, closing below $30 a share earlier this week, and causing the U.S. Treasury to consider liquidating its remaining 500 million shares before the stock drops further. As the *Wall Street Journal* noted, to break even, “The Treasury would need to sell its remaining shares…at $53 apiece.” An unnamed Treasury spokesman noted that “[P]lanning…is still at an early stage, and the IPO lockup does not expire until late May. At that point, we will consider all of our options, based on our twin goals of protecting taxpayers’ interests and exiting as soon as practicable.”

Translation: no way are shares of GM likely to reach $53 a share, and with President Obama running for reelection in 2012, no way does he want this unhappy issue to surface during his campaign.

And it’s an unhappy issue because, despite GM’s apparent success at making the new, sleek, unencumbered company profitable, it faces massive difficulties. To wit: many expensive and inefficient union rules remain in place, gasoline approaching $4 a gallon is taking the starch out of the sales of GM's big, profitable SUVs, and management continues to have difficulty keeping the high-level help. The recent unexpected departure of GM's chief financial officer Chris Liddell didn't help, but reflects the fact that since emerging from bankruptcy, the company has had three chief executive officers and three chief financial officers. And the highly touted Chevy Volt is now an unmitigated disaster, with total sales now estimated by GM to barely hit 10,000 units by the end of the year. With the Volt costing nearly $40,000 per unit to build, there is no profit to allow the company to recoup its engineering and development costs. It's helpful to remember that GM's experience with the EV1 in 1996 also ended in 1999 as a complete and utter failure, with those all-electric cars being taken off the market and crushed.

It's safe to say that while the "new" GM was initially touted by progressives as the car company of the future, the consumer doesn't think so. And now that the bloom is off the rose, the government wants out. The Treasury hopes to unload the stock — both a fiscal and political liability — before it declines further, trusting that voters, stockholders, and taxpayers will continue to have short memories. The billions originally used to bail out the company won't be returned, and it has just been learned that if GM is able to continue to turn out profits, taxes on those profits are exempted for the next 20 years, and could cost taxpayers up to another $45 billion. GM is the gift that keeps on taking.