Written by Michael Tennant on June 13, 2011

"Government Motors" Gives Taxpayers the Crankshaft

In truth, the automaker bailouts have hardly been the rousing success stories portrayed by the Obama administration. Even the much-touted loan repayments have amounted to far less than advertised. As *The New American* reported recently, Chrysler, for instance, is expected to repay only 90 percent of its loan, leaving taxpayers holding the bag for $1.3 billion. As to GM's loan, FreedomWorks' Matt Kibbe explains:

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> In reality, GM's claim about paying back bailout money is misleading. Much of the $50 billion in federal assistance came in the form of equity purchases, with the government taking a 61-percent stake in the company. The cash loan totaled "only" $6.7 billion in taxpayer dollars. For taxpayers to recoup their investment, the federal government would have to sell its 365 million shares at a profit. The break-even price would be $55 a share, but GM is currently selling at $28.90.

And it doesn't look like share prices are increasing any time soon. The stock market is up since mid-November by about 8 percent. But the stock of General Motors has bucked the trend. It's down more than 16 percent since its initial public offering on November 18, 2010.

The upshot, Kibbe says, is that taxpayers have "lost roughly $11 billion in the government's experiment in big business, with no real prospect that the market performance of GM will turn around anytime soon — not as long as the government is calling the shots, anyway."

He maintains that taxpayers, having opposed the bailout from the outset, "are innocent victims of the fraud that the bailout constituted from the beginning. Therefore, the only fair way to correct the injustice is to require General Motors to repay the taxpayers the $11 billion, or whatever the final amount turns out to be." He suggests long-term debt financing, which, he points out, would not only correct the injustice but would also be likely to deter businesses from seeking such bailouts in the future.

Now let's be clear about one thing: Even if the government does recoup its entire investment, taxpayers are still going to take it on the chin. The money returned to Washington will be spent on other boondoggles, not returned to its rightful owners. No taxpayer thus far has received a check in the mail for his portion of the loans that GM and Chrysler have paid back. Nevertheless, Kibbe is correct that forcing GM to repay every last cent it has cost the U.S. Treasury would lessen the chances that taxpayers will find themselves in a similar situation in the coming years.

Of course, getting GM to repay the Treasury is going to be next to impossible as long as the government owns it. Kibbe writes:

> The *Washington Post* got it exactly right when it wrote that, “The mere fact of government ownership is a drag on GM’s profit potential.” Consumers don’t want to buy from “Government Motors,” and top-notch executives don’t want to work for it. In addition, the bailout has brought unstable leadership: from its founding in 1923 until the government takeover in 2009, GM had a total of ten CEO’s, an average tenure of 8.6 years each. None of the three CEO’s since then has lasted even a year.

Worst of all, corporate leaders have been forced to base their decisions not on market considerations, but on the political/ideological prejudices of their government handlers. The Obama administration is ideologically committed to “green” development, and so GM has produced virtually unsalable hybrid Volts, which even at a non-competitive $41,000 lose money each and every one.

All of this explains why the government has lost $12.3 billion and counting on its foray into automotive socialism and why GM is unlikely to rebound until Washington sets it free. Car buyers today do indeed see the U.S.A. in their Chevrolet — and they don’t like what they’re seeing.

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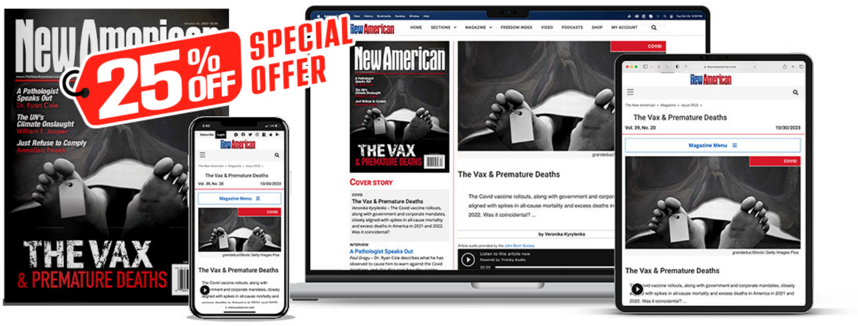

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