

OBAMA MOVES GM AND CHRYSLER TOWARDS BANKRUPTCY

Let me start by saying I'm non-plussed by the call for Rick Wagoner's head. I think Wagoner was making the right moves recently, but he was also responsible for years of inaction. So I'm not sorry to see him gone. In any case, Obama is forcing out the entire board of GM, so Wagoner would have had to go anyway.

That said, here's what Obama seems to be announcing today:

- Chrysler will be forced into a marriage with Fiat in the next month or be denied any additional aid—which will surely put it into bankruptcy
- GM (which failed to get the required concessions from the UAW and bond-holders) will have 60 days to come up with a new, more aggressive turn-around plan
- At the end of 60 days, the government may require a "quick rinse" bankruptcy (one month) to get GM's stakeholders to take their losses

Thus far, it's tough to tell whether this is a good plan or not. As far as Chrysler, they can't survive alone. So the forced marriage gives it one chance to avoid bankruptcy that otherwise seems inevitable. I don't think Fiat will take the deal, so I expect Chrysler to enter

bankruptcy within the next month.

As for the GM plan, they are finally talking about dealer concessions (which a "quick rinse" bankruptcy would help, too), which was the element that everyone had thus far ignored. And some of this tough love with GM seems to be a logical next step given bond-holders' intransigence since December. GM had been, thus far, unable to get its bond-holders to accept the losses they had told GM, in November, they would take, so Obama is threatening to use a court to make them do so—followed by UAW concessions.

Which leaves me with these questions, for now:

- When is Obama going to restructure Citi and AIG this radically?
- To what extent was the last minute Bush deal with Cerberus in December (which allowed GMAC to shed its mortgage-related debt and become a TARP recipient) responsible for the bond-holders intransigence?
- Will we see any reporting about the sanctity of contracts today, purportedly the excuse for not withholding the AIG bonuses? AIG's CDS counter-parties are the exact equivalent of the GM bond-holders; on Thursday Geithner talked about the importance of AIG meeting its obligations. And UAW's workers are the equivalent of AIG's bonus

recipients except the former didn't screw up the company.

- Will Obama recognize the irony of allowing GM to renege on its health care promises to a bunch of line workers, even while Obama demands a national health care plan? Will he recognize that his own plan needs to go further to eliminate the huge competitive disadvantage GM faces in the production of small economic cars (that Japan can make them with labor that gets free healthcare)? Will he allow the insurance companies to prevent a real fix for health care while dismantling the rest of US manufacturing because of health care?

Update, from the restructuring plan:

General Motors: While GM's current plan is not viable, the Administration is confident that with a more fundamental restructuring, GM will emerge from this process as a stronger more competitive business. This process will include leadership changes at GM and an increased effort by the U.S. Treasury and outside advisors to assist with the company's restructuring effort. Rick Wagoner is stepping aside as Chairman and CEO. In this context, the Administration will provide GM with working capital for 60 days to develop a

more aggressive restructuring plan and a credible strategy to implement such a plan. The Administration will stand behind GM's restructuring effort.

Chrysler: After extensive consultation with financial and industry experts, the Administration has reluctantly concluded that Chrysler is not viable as a stand-alone company. However, Chrysler has reached an understanding with Fiat that could be the basis of a path to viability. Fiat is prepared to transfer valuable technology to Chrysler and, after extensive consultation with the Administration, has committed to building new fuel efficient cars and engines in U.S. factories. At the same time, however, there are substantial hurdles to overcome before this deal can become a reality. Therefore, the Administration will provide Chrysler with working capital for 30 days to conclude a definitive agreement with Fiat and secure the support of necessary stakeholders. If successful, the government will consider investing up to the additional \$6 billion requested by Chrysler to help this partnership succeed. If an agreement is not reached, the government will not invest any additional taxpayer funds in Chrysler.

[snip]

Appointment of a Director of Auto

Recovery: The Administration also announced that Edward Montgomery, a top labor economist and former Deputy Secretary of Labor, will serve as Director of Recovery for Auto Workers and Communities. Dr. Montgomery will work to leverage all resources of government to support the workers, communities and regions that rely on the American auto industry.

All that seems to make sense. I'm trying to see whether Montgomery has more experience than Steven Rattner in automotive (he's got more manufacturing experience, so that's already a plus). But thus far, this all makes sense.

Update: Obama had nothing substantive to add in his presentation—he laid out why they're taking this route and announced the appointment of Montgomery (and said he'd work with Secretary Solis).

He did, however, hit all the right notes, talking about how the auto industry had helped the US win WWII and could do it again.

In other news, here are the assessments of the GM and Chrysler plans. They strike me as eminently reasonable assessments. My biggest complaint, thus far, is that the Administration does not mention "health care" in either of the assessments. They mention legacy costs, but not health care. So thus far, they seem unprepared to deal with the fundamental competitive disadvantage that we're asking our manufacturing companies to shoulder.