Plan amounts to a de facto government takeover

by The Detroit News

General Motors Corp. couldn't possibly have imagined this outcome when it made the calculated decision last fall to ask for survival loans from the federal government instead of taking its chances on a bankruptcy filing. Now, GM may get the bankruptcy anyway, and its future will apparently be dictated by a White House whose vision for the company is driven more by ideology than the marketplace.

Chrysler LLC has been told it must merge or else.

President Barack Obama tore up the turnaround plans of both automakers Monday and handed them plans of his own. While the president said repeatedly that he "has no interest" in running a car company, he appears to be very much running GM.

The question of most concern to Detroit is: Will he run them into the ground?

There was some good news in what the president had to say Monday. We welcome his promise to use tax credits to spur new vehicle sales and to do more to loosen up the auto loan market.

But Obama placed both companies on very short notice for coming up with even tougher plans to revive their business. That means deeper and harsher cuts, which will impact most heavily the very autoworkers the president praised so effusively during his speech.

After earlier assuring that the administration wanted to help the automakers avoid bankruptcy, Obama used the possibility of a quick bankruptcy proceeding for both Chrysler and GM as a lever for more concessions from workers, shareholders, bondholders and creditors. He sought to soften the blow by undertaking to guarantee GM and Chrysler vehicle warranties.

For GM, part of the price of additional "adequate working capital" and a 60-day extension to come up with a tougher plan has already been extracted with the resignation of GM Chairman and CEO Rick Wagoner.

But the administration might not be done meddling in GM's governance. A reshuffle of the GM board of directors is expected and we assume that will be directed by the White House, and not shareholders.

The government critique said GM is a "generation behind" Toyota in advanced, "green powertrain" development. And the administration said GM is still too heavily reliant on trucks and SUVs for its revenues, making it difficult for it to pivot to smaller, more fuel-efficient cars.

James Harbour, founding editor of the respected Harbour Report on auto firm productivity and a tough critic of the domestic industry in the past, disputes the administration's finding. "Nobody is lagging anybody" on technology, Harbour says.

The sales figures show that the public isn't currently looking to GM and Chrysler for small cars. GM sold 50 percent more trucks than cars in the first two months of this year, and the figures were the same last year, despite the spike in gasoline prices. The sales percentages are similar for the other domestic automakers.

GM, it is true, must learn to turn more of a profit on smaller vehicles, as have the Japanese automakers. But the administration has to be careful not to push the firm too far too fast in the direction of smaller cars. One of the key requirements for continued aid for GM is that it become more profitable more quickly.

Curiously, the task force also dinged GM for devoting too much of its alternative-vehicle resources to the battery powered Volt, a vehicle developed almost solely to please the company's Washington critics.

Chrysler, meanwhile, was ordered to complete a merger with the Italian automaker Fiat, or be prepared to shut its doors. Imagine the impact that threat will have on near-term Chrysler sales.

What was put on the table Monday goes well beyond a lender insisting on strict oversight of how borrowed money is used. In GM's case, it is a de facto takeover by the government. In Chrysler's case, it is a shotgun wedding.

Obama has been harshly critical of the way Detroit's automakers run their businesses. We'll see now if he can run GM any better.

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