GM's latest remodel

General Motors has a last attempt at restructuring outside of bankruptcy.

In December, when GM secured a large slice of government bail-out funds to keep it alive, the giant car company was jokingly dubbed Government Motors. The company's latest—and most sweeping—restructuring plan, announced on Monday April 27th, could make the joke a grim reality. GM had until the end of May to present proposals to persuade America's government to release billions more of taxpayers' dollars to keep it from the bankruptcy court. GM believes it has done the job already with a plan that gives the government a 50% stake in the firm. Now the important deadline is May 26th, by when the company's creditors are supposed to agree to a deal which treats them far less generously.

The latest plan, devised in close consultation with the Obama administration's car-industry task force, is a last-ditch effort to get GM into competitive shape. The firm announced that another 21,000 jobs will be lost in America next year, bringing the workforce down to around 40,000. The Pontiac brand will go and the production of Saturn models will disappear at the end of this year, somewhat earlier than had been proposed. GM also aims to shut several factories and will reduce its dealership network from some 6,200 to 3,600 (a bigger cut than previously planned).

GM suggests that these measures would save about $7 billion a year. The company also has proposals to reduce debts. It is seeking another $11.6 billion from America's government in addition to the $15.4 billion it has already received; in exchange for half of that debt, the government would receive a 50% stake in GM. The United Auto Workers, GM's main union, would get a 39% stake. That would be in lieu of half of the $20 billion that it owes to an independent trust, controlled by the UAW, that is supposed to provide healthcare as part of a previous deal to shed liabilities.

Despite protestations from the White House that the government had no desire to own or run a big car company, the politicians may have little choice but to get involved, if the deal goes through in its present form. The alternative might be to cede control to the UAW, the second-biggest shareholder, which is hardly blameless for GM's current parlous state. Rumours also abound that a similar deal to avoid bankruptcy at Chrysler would see the UAW take a 55% stake in America's third-largest homegrown car company. If so, it is unclear whether further concession from unions, if they are needed at the two carmakers, would be easier or harder to extract.

Standing in the way of restructuring outside of the bankruptcy courts are GM's aggrieved bondholders. GM wants holders of just over $27 billion in unsecured debt to swap it for a mere 10% of shares in the company. If debts cannot be cut by 90% then GM will file for Chapter 11 bankruptcy protection. Bondholders smell an unsavoury deal cooked up between the UAW and

Barack Obama, who had the union's support in last year's election. Early signs suggest that the bondholders may conclude that they will do better to hope for a bigger pay-out in bankruptcy rather than agree to a deal on these terms.

It may be that by announcing the proposals early GM has left time for renegotiation with the bondholders. But the ferocity of their initial disapproval suggests that small sweeteners will not persuade creditors to change their minds. Bondholders face the prospect of a small stake in a clapped out car company run by a union-friendly government with a zeal for green cars that may not have much of a market. With that as an alternative, a gamble in a bankruptcy court may seem quite appealing.

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