Bankruptcy, at last

GM declares bankruptcy, at last. The challenge is to save something useful from the wreckage.

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A car, stripped to its bare bones and rebuilt using only those bits that are strictly necessary, might turn out to be super-light and capable of taking on the speediest of competitors. Or it could just end up as two piles of junk. On Monday June 1st, putting an end to weeks of expectation, General Motors filed for Chapter 11 bankruptcy protection. The idea is that the 100-year-old carmaker will be stripped of debts, other obligations and unsavebale parts and will then emerge from the bankruptcy court ready to perform like a sleek racer. The risk, however, is that it instead emerges as an old crock with a dodgy respray.

Bankrutpcy will certainly ensure the emergence of a smaller firm. The car company is being remade to cope with operating in a North American market with sales of 10m vehicles a year, roughly the number that will find buyers in 2009. GM might expect to get a little over a fifth of that market. To get into shape, more than 12 of its American plants will close and four brands—Pontiac, Saturn, Hummer and Saab—will be sold out of bankruptcy or will disappear for good. Hummer, apparently, already has a buyer. A significant proportion of GM's dealers will go too. The end result will be over 21,000 GM workers out of a job.

GM's European operation, Opel, will also go, ensuring that the American company is no longer a truly global car company (although it will retain arms in Latin American and Asia). Opel's fate is now in the hands of Germany's government, which sealed a deal on Saturday between GM and Magna, a Canadian car-parts business. Germany, home to many of Opel's operations, will provide loans and guarantees worth €4.5 billion ($6.4 billion)to keep Opel from entanglement with GM's bankrutpcy filing and to support the company until Magna takes over.

The demise of GM, a company that made over half of the cars on America's roads a few decades ago, is a reminder that companies cannot afford to take their eyes off the road. GM, along with Chrysler and Ford, kept their vast share of the American car market only until globalisation had its way. High import duties on profitable light trucks and sports utitily vehicles kept competitors at bay until Asian carmakers set up shop in America (with generous subsidies from states where they located). Detroit's competitiveness was further weakened by pension liabilities and huge health-care costs that added hundreds of dollars to the cost of each vehicle.

As market share shrunk and profits dwindled, America's carmakers made periodic attempts to restructure, in the face of stiff union resistance until recent years. But these efforts were insufficient, usually amounting to cutting capacity usually long after market share had evaporated. At least the wholesale rejigging of GM in bankruptcy should bring the two into line for a time. And a deal with the United Auto Workers will allow GM to forgo a $10 billion

payment to a union healthcare fund in return for a 17.5% stake in the new GM. Aggrieved bondholders are likely to emerge with 10% of the new firm for loans totalling $27 billion.

The UAW and GM's other likely new owners—the governments of America and Canada, with 72.5%—have said that they want to sell out as soon as possible after GM emerges from bankruptcy. But will America's government ever come close to recouping the $50 billion so far sunk into GM?

The cuts will take some of the overcapacity out of the North American car market, unlike the arrangements with Opel, where Germany's government is intent on preserving jobs and hence the car manufacturintg capability that Europe could do with shedding. But GM's problem is that it must still compete with Asian manufacturers that make cheap and reliable cars. Chrysler, set to emerge from bankruptcy with Fiat as a partner and Ford, still loaded with debt and other liabilities, will also provide car buyers with more choices. GM now makes some decent vehicles but its reputation it still suffering from the decades when it made bad cars. If GM cannot revive its good name, and if the cycle of falling market share and piecemeal readjustment begins again then GM, in any form, looks doomed.

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