

Nationalize General Motors; A Modest Proposal

by Hank Stewart

The federal government should buy General Motors, and nationalize it.

Okay, okay...put down the torches and pitchforks! Call off the capitalista lynch mob. It's just a thought. I'm not even sure it's a good one, but let's explore it—just for fun.

As of this writing, the federal government has already loaned GM \$13.4 billion, and now they're asking for another \$16.6 billion. In that regard, we, the US tax payers, already have a sizeable stake in the floundering auto maker. What would happen if we just went ahead and bought it?

Well, as the new owners, the first thing we do is clean house. We get rid of all the top level management that paid themselves millions of dollars, and flew around in private jets. We replace them with executives who have loyalties that extend beyond their bank accounts. Let's find people who have already realized personal or corporate success, and now are willing to embrace a spirit of service, and work on behalf of their country. Sure, we'll pay them. As federal employees, they'd be eligible to receive the highest levels of the Federal Employee General Scale; GS 15, Step 10, or \$127,604 a year. They should be able to get by on that.

Next we need to look at the workers. It's not their fault, individually, that GM is in the shape it's in, but collectively, as members of the UAW, they have had a role in the disaster. As such, they can keep their jobs, but now they're government employees, too. They can move up the government pay scale just like any other government employee. They'll enjoy the same benefits, as well.

One of the most significant roadblocks to a profitable GM is how much it has to pay out in its pension fund. Obviously, we can't abandon retirees who depend on their GM pensions, but let's shift that burden to Social Security. If we, the taxpayers, are going to own GM, we're going to own this debt too, perhaps by moving it to Social Security and Medicare, we can realize some economies of scale.

Okay, I hear you out there, raising your objections to such an action. Let's look at a few of them.

It will set a dangerous precedent

Too late. In September of 2008, the US Treasury placed two of the world's largest holders of mortgages, government sponsored enterprises (GES) Fannie Mae and Freddie Mac, into conservatorship for up to \$200 billion. In the UK, the term they use for such a transaction is "nationalisation."

That same month, the US government acquired an 80% equity stake in insurance giant AIG for \$85 billion. That number has now gone up to over \$160 billion. (Does that mean we own a 160% stake?)

As of press time, there are news reports of the US government possibly acquiring a 40% stake in Citigroup.

Like it or not, we American taxpayers are becoming owners of some significant global businesses.

It's too expensive.

As noted earlier, the federal government is already heavily invested in GM. The automaker received \$13.4 billion in loans in the waning days of the Bush administration, and is already back in Washington, asking for \$16.6 more.

As of press time, GM stock was trading at \$1.65 a share, with a market cap of just over \$1 billion. According to Wall Street analysts, the enterprise value of the company (what you might expect to pay for it) is \$28.6 billion. That's less the amount of money GM wants to borrow from the government. And what do you think are the chances of GM repaying those loans? Why not take the money, and just go ahead and buy GM? Compared to the \$160 billion we've sunk into AIG, GM looks like the bargain of the century.

The government can't run a corporation efficiently.

Let's face it, present GM management hasn't set the bar too high. GM lost \$31 billion in 2008. The company is teetering on the verge of bankruptcy. Seriously, how much worse could the federal government do?

While I am as wary of government bureaucracies and inefficiencies as the next guy, not everything the government touches turns to triplicate filings. And some privately help corporations don't do much, if at all, better. Look at the results of a recent g-Think survey of Awakening Consumers. The question was, how efficiently are these entities operated? A score of 1 meant completely inefficient, 10 was maximum efficiency. Here are some averages to contemplate:

General Motors: 2.7
Citigroup: 3.1
Amtrak: 4.6
The US Army: 4.9
The US Postal Service: 5.1
FedEx: 6.6
UPS: 6.8

While operations run by the federal government aren't in the efficiency league of the FedEx and UPS's of the world, they fare significantly better than both Citigroup and GM. It's a dangerous question, but I'll ask it again, how much worse could the government do?

Why would we ever want to own General Motors?

Two reasons, both of which could significantly benefit the US taxpayer: it could be better for the environment, and it could make some money.

If the US government were to own GM, it could provide the ideal platform for developing alternative fuel vehicles at a more rapid pace. Imagine a new GM management team, appointed by the Obama administration, sharing the president's commitment to both energy independence and reduced carbon emissions. GM could become a incubator for innovation, attracting the best and brightest scientific minds with the promise of working in an environment where creativity and imagination will be encouraged and rewarded.

Were the government successful in creating such a business, it would be very valuable, indeed. One that would be attractive to the private sector, in fact. At this point, the US government should do what most successful entrepreneurs would—sell it.

That's the idea, sell the new, successful General Motors back to private investors, put the profits back in the treasury and let it put a dent in the \$10 trillion deficit we're now passing on to subsequent generations.

In a recent survey of Awakening Consumers, 27% said the US nationalizing General Motors was an idea worth considering. Maybe they're right.

As Darwin said, it's just a theory.