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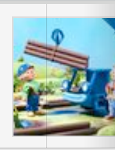

OPINION | APRIL 23, 2010

Two Cheers for General Motors

Yes, it's paid back $6 billion and is more efficient. It still owes taxpayers about $52 billion.

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By PAUL INGRASSIA

Is General Motors no longer Government Motors? That's the impression left by the company's announcement this week that is has fully repaid the $6.7 billion in loans it got last year from the U.S. and Canadian governments.

The company is "paying back—in full, with interest, years ahead of schedule—loans made to help fund the new GM," declared chairman and CEO Ed Whitacre. That certainly is the truth, but not the whole truth.

GM is making progress. But its early loan repayment represents a little more than 10% of the money it got from both governments. Understanding why means peering under the hood of last year's government-sponsored bailout and bankruptcy.

A year ago at this time President Barack Obama's automotive task force decided against letting the company be liquidated, but it wrestled with the issue of how to usher GM through bankruptcy quickly and give it the best chance for survival.

The old GM was being crushed under a mountain of debt, much of it incurred so the company could pay pensions to its retirees. So the new GM, the task force decided, would be restructured with a pristine balance sheet.

It was both a financial and a political decision. Financially, saddling the new GM with lots of debt might doom the company to Failure 2.0. If the new GM collapsed after the government pumped in tens of billions of dollars, the political fallout for the Obama administration would be enormous. (Being tarred with bailout was bad enough.)

So the U.S. and Canadian governments decided, more or less arbitrarily, to classify some $6.7 billion of its aid as debt and a ballpark estimate of $52 billion in equity. That $52 billion represents nearly 90% of the government money given to General Motors. None of that has been repaid.

Mr. Whitacre should have acknowledged that directly. He would have enhanced the company's credibility compared with the old GM, which seemed to declare victory every other week even in the face of disaster.

Nor would this acknowledgment diminish the achievement of repaying the loans four years early. A year ago, with GM heading for a June 1 bankruptcy filing, nobody believed any aid would be repaid so quickly. Nor did anyone predict Chrysler, the other car company to get

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would be repaid so quickly. Nor did anyone predict Chrysler, the other car company to get bailed out, would basically break even in this year's first quarter, as the company announced this week.

Getting the remaining $52 billion back from GM will require an initial public offering, which means convincing the investing public to buy the 73% of the company's stock owned by the U.S. and Canadian governments. (The other 27% is owned by the United Auto Workers union and by bondholders in the old company.)

It won't be easy for an IPO to raise $52 billion for the government shares. That's more than Ford Motor's current market capitalization, some $48 billion. And Ford, the only U.S. car company to avoid bankruptcy, already is profitable, which GM isn't. For GM to show sustained profits means doing business in a new way and breathing new life into long-moribund brands.

On the first score, one new GM executive hired from the outside asked his underlings to stop producing most of their regular management reports and see if anybody noticed. Nobody did. The company also is curtailing its habit of producing too many cars and selling them with discounts that sapped all the profits. Sales discounts remain high, but they're down more than 25% from a year ago.

Reviving brands is another matter. The new compact Chevrolet Cruze is attractive and well-received, but it's competing against cars with decades of name-brand recognition, the Honda Civic and Toyota Corolla among them.

Certainly the Chevy revival lags behind that of the Ford brand, which is getting a cool image from putting nifty electronic features—voice-activated audio controls, radar that adjusts your speed relative to the car ahead of you—in its cars. It's been decades since anybody thought of a Chevy (except for the Corvette) as cool. The best role model for Chevrolet might be one of the smaller Japanese car companies, Mazda.

Mazda makes interesting, fun-to-drive cars, including the Miata roadster and the sporty Mazda 3 compact. But the company lacks marketing clout and a strong dealer network, so its U.S. market share has been stuck between 2% and 3% forever.

If Chevrolet can combine snazzier, Mazda-like cars—not dowdy-mobiles geared for rental-car fleets—with its extensive distribution system, the brand's image and GM's overall fortunes will rebound smartly. It won't happen overnight, but it has to happen for GM to succeed.

Meanwhile, the new General Motors should trumpet its triumphs. But it should be more careful to present them in proper perspective.

Mr. Ingrassia, this newspaper's former Detroit bureau chief, is the author of "Crash Course: The American Automobile Industry's Road from Glory to Disaster," published recently by Random House.

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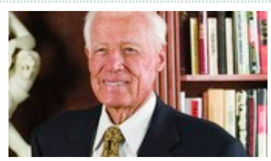

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