

## **GM bankruptcy: How will it impact the US?**

*di Mark Trumbull*

General Motors put its house in order this weekend in preparation for its expected declaration of bankruptcy Monday.

On Saturday, a majority of the bondholders agreed to trade in their share of GM debt for stock in the firm as part of a restructuring plan backed by the US government.

Support from these bondholders is vital, since both GM and the White House want to reconfigure the company quickly and not get mired in litigation among various creditors.

Even so, with the largest maker of cars in the US probably heading into bankruptcy court Monday, the effects will ripple across the nation – and in unexpected ways.

Yes, one result could be once-in-a-lifetime bargains on some brand new General Motors cars. But this is no ordinary bankruptcy, and it's certainly not a GM-wide liquidation sale, analysts say.

What's happening, rather, is a carefully orchestrated restructuring with a big financial assist from the US Treasury.

It will be a mammoth project, and it's all supposed to happen between now and when Americans put away their beach gear on Labor Day.

Here's a question-by-question look at what the GM bankruptcy could mean for ordinary Americans:

### **Should I go bargain hunting at a Chevy or Saturn dealership?**

When Chrysler recently entered bankruptcy, the biggest bargains came at dealerships that were told to close – and were given just a few weeks to shut their doors. Those showrooms had a big incentive to slash prices in order to unload their inventory.

So far, GM's plans for downsizing its dealer network are on a slower track. It's possible that will change once GM enters bankruptcy, says Jeremy Anwyl, chief executive of the auto information company Edmunds.com. Shoppers might find some steals on wheels, but that isn't known yet.

What is clear is that the recession has made all car companies very hungry for customers.

"It's a great time for buying just about any car," Mr. Anwyl says.

Yet it's risky just to assume that a bankrupt car company must be offering great deals. Research by Edmunds.com found that Chrysler's profit margin actually went up in May – after a court filing on April 30.

Why?

Analysts at Edmunds.com figure consumers negotiated less aggressively because they thought bargains were already in the sticker price.

GM plans to sell or phase out its Hummer, Saturn, Saab, Pontiac brands, while retaining Chevrolet, Cadillac, GMC, and Buick.

One plus for consumers concerned about the risk of buying from a shaky firm: The federal government has said it will backstop new-car warranties on GM and Chrysler (maker of Dodge and Jeep brands) as they restructure with US aid.

### **What does this mean for GM car owners?**

Any impacts should be small, most analysts say. Parts should remain readily available, even for phased-out brands like Pontiac, Anwyl says. In rural areas, however, the downsizing of the dealer network could make for longer trips for repairs.

### **How will the GM bankruptcy affect the economy?**

Bankruptcy for one of America's biggest manufacturing firms sounds like a bad thing, but the the Obama administration is seeking to soften the blow.

Under any scenario, the auto-sales slump and the long-term competitive challenges facing GM and Chrysler pointed to the need for major downsizing and job cuts.

But restructuring in bankruptcy can take various forms. Without a financial lifeline from the government, the carmakers could have had a messy collapse. The result would have been more job losses on their assembly lines, and also more broadly among the companies in their supply chain.

A wave of failures among suppliers would have had spillover effects on other carmakers like Toyota and Ford, analysts say. The overall collapse in industry activity could have rippled across the nation – from dealerships to design shops and advertising agencies.

By stepping in with support, President Obama is aiming to guide GM toward a leaner future while avoiding that kind of shock to the overall economy.

As it stands, GM will be cutting 20,000 of its own jobs, and the auto-parts industry is still facing a shakeout. Major partsmaker Visteon just filed for bankruptcy last week.

But without the government financing, the industry's woes could cost the nation more than 1 million jobs – and possibly push the national unemployment rate up a full percentage point, some economists estimate.

**Will taxes go up because of this bailout?**

Not immediately. The government can spend money by borrowing, rather than raising taxes. The bailout is expected to cost about \$50 billion for GM alone.

It's possible the government could kick in even more money later, if the carmaker's troubles persist. But the Treasury might also recoup some of its money down the road. As GM's big lender and investor, it will have a majority ownership stake that it hopes to eventually sell to private investors.

The disorderly collapse of the US car industry would have had its own negative effects on federal tax revenues.