

## **Worker Response to Advocates for GM Bankruptcy: Bankruptcy would punish the people who were not responsible**

[www.usnews.com/blogs/flowchart/2009/03/08/6-upsides-to-a-gm-bankruptcy.html](http://www.usnews.com/blogs/flowchart/2009/03/08/6-upsides-to-a-gm-bankruptcy.html)

**In “6 Upsides To a GM Bankruptcy” Rick Newman writes:** “.....if GM declared bankruptcy, it may not be as catastrophic as Wagoner and other GM defenders have insisted. First of all, a bankruptcy filing doesn't mean GM would liquidate all its assets and shut down. A Chapter 11 filing gives a firm a chance to shed debt and reorganize, and more than two-thirds of firms that declare bankruptcy come out of the process as a healthier, standalone company, or as a viable part of some other company.”

**The rosy Newman scenario neglects to point out that 100% of the two-thirds of successful bankruptcies are nowhere near the size and scope of GM. The closest comparison, Delphi, is not a tenth of GM's size and pervasive influence. Delphi has been in bankruptcy for three and a half years and the only end in sight is liquidation which is why GM is buying several important Delphi plants.**

**Newman writes:** “The catch these days is getting the financing needed to continue operating while in bankruptcy.....But if GM filed for Chapter 11 protection, there's a high likelihood the government would provide the financing - and get a better deal than if it simply loaned GM more money as part of an open-ended bailout....”

**The notion of a “better deal” for government in this rosy Newman scenario is based on a limited view of government. A government of, for, and by the people would be primarily interested in promoting job growth by investing in manufacturing. Furthermore, the government would seek to restore confidence and trust by honoring contracts and commitments, not breaking them.**

**Newman writes:** “The bankruptcy courts are equipped to handle companies like GM. "Reorganization under Chapter 11 is a fairly efficient process, especially for large firms," according to a new book, Restoring Financial Stability, compiled by New York University's Stern School of Business. It hasn't been a useful option for troubled financial firms like Citigroup, AIG, and Bank of America, because the financial crisis erupted so quickly and a hasty Chapter 11 filing would have been devastating to thousands of other firms that had financing deals with the banks. But GM has already been restructuring for years, and third-party companies are fully aware of the automaker's problems.”

**In this rosy Newman scenario welfare for banks and the company that insures bank loans is beneficial because “thousands of other firms” would be affected. In GM's case thousands of dealers, suppliers, workers, retirees, bond holders, and customers are insignificant. The only companies that deserve welfare according to Newman are those that do not produce anything. The rosy Newman scenario omits unemployment as a prime factor of recession.**

**Newman writes:** “Bankruptcy would help GM accomplish what it needs to do. In addition to building more popular cars, GM needs to renegotiate billions in debt, slash the number of dealers, and reduce costly healthcare benefits for workers and retirees. It's been trying to do that for years - but the glacial pace of negotiations has made it impossible to move fast enough. A Chapter 11 filing would give a bankruptcy judge and appointed stewards of the company the power to force concessions that otherwise might take years longer to achieve - or never happen at all.”

**Free market promoters like Newman abandon their principles when push comes to shove**

**and demand ultimate authority to control competing forces in order to impose the outcome they desire. For example, the free marketeers are quite pleased that Judge Drain has sanctioned Delphi's desire to drop health care for thousands of retired salary employees while consistently rewarding bonuses to executives. "The power to force concessions" under a government of the people would slice the pie equally, but that is not the desired outcome of those who promote the policy of breaking contracts.**

**Newman writes:** "The feds can still provide aid. In Restoring Financial Stability, bankruptcy experts Edward Altman and Thomas Phillippon argue that the government could offer financing once GM has declared bankruptcy - with assurances that a bankruptcy judge will force changes. "This is far more reassuring," they write, "than a Band-Aid bailout that will not materially reduce the public's uncertainty about a possible liquidation." GM could even work out a "prepackaged" bankruptcy with the feds, so that financing materializes the moment GM files for Chapter 11 protection - which would minimize concern among car buyers that GM would go out of business and fail to stand behind its vehicles or honor warranties. Altman and Phillippon estimate that with proper financing, GM could emerge from bankruptcy in 18 to 24 months, and be much healthier than if it shambled along in bailout mode indefinitely."

**The rosy Newman scenario of "prepackaged bankruptcy" is naive. There are too many competing interests in the GM empire to resolve prepackaging prior to Chapter 11 filing. In fact the prepackage negotiations are in essence already in process and the government is in effect the Debtor In Possession [DIP]. Unions, bondholders, dealers, and executives are negotiating to reduce debt and design a master plan for recovery. The absence of an ultimate authority to impose arbitrary concessions is in fact the best scenario for an equitable and durable solution.**

**Newman writes:** "It would reintroduce a heavy price for failure. One unsettling characteristic of Bailout Mania has been federal intervention that absolves wayward firms of the consequences of bad decisions. Citigroup, AIG, and many other troubled firms would already be bankrupt - thanks to horrible gambles made at the peak of the housing boom - if the feds weren't propping them up. That's a major break for investors, executives, and creditors who loaned these firms money without verifying that it was a wise investment. Many analysts worry that by bailing out executives who made foolish mistakes, it will set a corrupt precedent and encourage more reckless behavior."

**The way to discourage "executives who made foolish mistakes" is regulation. Bankruptcy would punish the people who were not responsible and do nothing to prevent future catastrophes.**

**Newman writes:** "A GM bankruptcy would completely wipe out shareholders and force a "haircut" on debt-holders who should have been more diligent in their dealings with GM. It might also mean that Wagoner and his management team move on. To some, it would seem unfair for the feds to bail out big banks, while imposing bankruptcy on GM. But like it or not, banks are a special case, since they provide the liquidity that keeps the capitalist heart beating. Manufacturing firms do not."

**According to Newman, "banks are a special case" because they keep the "capitalist heart beating". Newman confirms the heart of capitalism beats for bankers not workers. So why not drive a stake through the vampire's heart? We aren't in this mess because workers manufacture products of actual utility and value. We are in this mess because bankers are bleeding us dry. The argument in favor of bankruptcy elevates Finance and Insurance to protected status and condemns the working class to poverty for trusting capitalism in the first place.**

**Newman writes:** "It would answer the question of what to do about Chrysler..... there's a good

chance that Chrysler would be split up and sold off in parts. That's bad news for Chrysler employees, but it would probably be better to have two healthy domestic automakers than three struggling ones.”

**Fewer competitors is the solution because it benefits who? The customer? The general public? The workers? Or the monopoly?**

**Newman writes:** “It would begin to eradicate the specter of Lehman Brothers. When the notorious brokerage firm failed last September, it set off a panic among investors who feared that a cascade of failures would follow, causing vast losses. That nearly happened, and was pre-empted only by a confusing set of stutter-step government interventions that left federal coffers drained and nobody satisfied.”

**How would bankruptcy “eradicate the specter of Lehman Brothers” who went bankrupt? That’s utter nonsense.**

**Newman writes:** “Investors clearly worry that another large failure could send the markets into a tailspin all over again. But GM is different from Lehman Brothers. If GM declared bankruptcy, it need not be a chaotic, unpredictable mess; compared to Lehman's failure, it might seem downright orderly. Careful pre-planning could set GM up for success once it comes out. It would send a powerful message to other struggling firms hoping for a bailout: Solve your own problems. And it would bring some satisfaction to taxpayers tired of watching corporate titans exonerated for their mistakes. Finally.”

**A GM bankruptcy would cause a “tailspin” and would make Lehman Brothers look like a punctuation mark compared to an oil spill. The only people who profit from a bankruptcy at GM would be the lawyers. The notion that it would be orderly is a pipe dream and that is precisely why it isn’t going to happen.**

**GM is negotiating with all the stake holders under government supervision. The government is in effect Debtor In Possession and it would serve the public interest if government used that power to invest in a strong manufacturing base in the United States. Labor is the heart of a strong productive economy and a healthy society.**

**Gregg Shotwell, UAW-GM retiree, and soldier of solidarity**