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Grinning and Bearing GM's Bitter Ironies

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Via General Motors, American taxpayers will soon own a 61 percent stake in a Texas-based company called AmeriCredit. GM announced plans last week to acquire the auto finance firm for $3.5 billion, which management believes will help boost its auto sales and improve chances for an IPO later this year or next.

Thus, a greater chance for re-privatization later is the rationalization for more nationalization now.

For those who opposed the nationalization of GM for its affront to free markets and the rule of law in the first place, the acquisition presents a dilemma. On one hand, the deal means that the nationalization virus is spreading to infect another company in a different industry, ensuring that yet more business decisions are driven by political, rather than economic, considerations. (Although, to acknowledge the efforts of Messrs. Bush, Paulson, Obama, Dodd, Frank and others, politics already reigns supreme in the consumer finance industry.) One has to wonder what exemptions, loopholes, and carve-outs might be in store for AmeriCredit, as the administration crafts regulations to implement the just-passed “financial reform” legislation.

And Senator Grassley (R-IA), who questioned and brought attention to some of GM's hyperbolic claims about its performance earlier this year, raised fresh doubts about the latest move:

If GM has $3.5 billion in cash to buy a financial institution, it seems like it should have paid back taxpayers first. After GM’s experience with GMAC, which left GM seeking a taxpayer bailout, you have to think the company and, in turn, the taxpayers would be better off if GM focused on making cars that people want to buy and stayed clear of repeating its effort to make high-risk car loans.

On the other hand, a course of action that gets the government out of the auto business as quickly as possible, and makes taxpayers as whole as possible, is probably the least objectionable. Though there are no guarantees that will happen, arguably that outcome is more likely if GM’s revenues and profits are higher. And, according to auto industry analysts, the absence of a captive financing operation (GMAC, now called Ally Financial, is no longer part of GM) has hurt GM's sales, especially in the "sub-prime" portion of the market.

The opening paragraph in a recent New York Times story on this topic went like this:

General Motors said Thursday that it had agreed to buy a financing company, AmeriCredit, for $3.5 billion so it can lease more vehicles and increase sales to consumers with lower credit ratings.

According to that story, about 4 percent of GM's sales go to sub-prime customers. But GM's sales could increase by as much as 20 percent if it "aggressively courts sub-prime buyers." Hmmm. Haven't we seen this movie before? Is GM stealing a page from the Fannie/Freddie playbook?

Well, apparently Ford and Toyota and the other big auto producers rely on their own captive financing units to make their vehicles accessible to those who wouldn't qualify for credit from third party financers. But at least those automakers have shareholders to discipline lending behavior that might lead to increased default rates. They may be more risk-averse or at least risk-conscious than a company spending other people's money, whose success happens to be in the Obama administration's best interests.

So where does this leave free market proponents? Arguably, in the same boat as the Obama administration, pulling for higher GM revenues and profits. Without successful operations, re-privatizing GM will be very difficult.

Of course, the final indignity—the ultimate heads-they-win-tails-we-lose irony in the GM saga—is that if GM is eventually re-privatized and if the taxpayers are made whole, proponents of similar interventions in the future will have a "success" story to tout.

Tags: Ally Financial, AmeriCredit, Charles Grassley, General Motors, GMAC