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What's best exit strategy for U.S?;
The administration could dump the stock, try to maximize profits or just leave it alone.

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BODY:

You own an auto company. What do you do now?

The Obama administration -- and by default, taxpayers -- must answer that question now that the federal government is about to take big stakes in two of the nation's storied industrial companies and their joint financing arm.

Based on the latest bankruptcy and bailout plans, the government will hold 72.5% of General Motors Corp., 8% of Chrysler Corp. and 35% or more of GMAC Financial Services, the car loan business.

Ideas for what to do with those shares are colored by politics and investment philosophies, and they're sure to be debated.

Some economists and financiers believe Obama should dump the stock almost immediately, to whatever buyer the government can find.

Others say the administration should find a partner, maybe a savvy investor such as Warren Buffett or an equity firm such as Oaktree Capital to operate the businesses for a generous share of any profits on the condition that the government gets its money first.

And some believe President Obama should just stick the shares deep into a desk drawer and let the next president worry about an exit strategy. GM and Chrysler will either fail again or become corporate home runs. Only time will tell.

The administration says significant government involvement in GM ends with its efforts to reconstitute the company's board of directors, which would happen as part of an expected bankruptcy filing by Monday.

White House Press Secretary Robert Gibbs reiterated Friday that Obama did not want to run auto companies, saying that the president had enough to do without having to "decide when to slash sticker prices."

That's the right approach, said David Cole, chairman of the Center for Automotive Research in Ann Arbor, Mich.

"Our government doesn't have a clue about what manufacturing is or how to manage it," Cole said.

The administration followed the same hands-off investment strategy with Chrysler's board, which recently announced that Robert Kidder, a former chairman and chief executive officer of Borden Chemical and Duracell International, would take over as chairman after the merger with Fiat.

Over the last decade, Kidder has given political contributions exclusively to Republicans, according to the nonpartisan Center for Responsive Politics. Administration officials say he was chosen for his business credentials, not his political leanings.

If the Obama administration resists any inclination to meddle in the operations of these companies, taxpayers have a chance to recoup some substantial amount of money they poured into the auto industry, Cole said.

Plant closings, combined with population growth and the rates at which older, gas-guzzling vehicles are scrapped, are quickly slashing the supply of autos to the point that the industry can make money at a sales rate of about 13 million vehicles annually. That's well below the 16 million to 17 million sold each year through much of the last decade.

"We are at the start of the transition from a buyer's market to a seller's market," Cole said. "This is an industry that will be very profitable."

That's why Richard Heckmann, a veteran executive who previously sold sporting goods maker K2 Inc. and water company USFilter, believes the government should hold on to its shares as a passive investor.

"This is like the auto business starting over," said Heckmann, who advocates letting the next administration figure out how to divest. "Whoever wins is going to win big."

The economy is going to face a rough two to four years, and it just doesn't make sense to liquidate the shares in the near term, he said.

There's precedent for the government making money in the auto industry, said former Michigan Gov. James Blanchard, a Democrat, who helped negotiate legislation that provided federal guarantees for up to $1.5 billion in loans for Chrysler in the 1980s.

Taxpayers made $311 million from stock warrants and an additional $25 million in profits from administering the loan program, and the lenders got all of their money back, said Blanchard, now an attorney with DLA Piper in Washington, D.C.

The government should hold the shares for now, then gradually divest so as not to undermine efforts of other equity holders to sell their shares, he said.

If the government leaves the businesses in the hands of competent managers, the market will sort itself out, said Jonathan Rosenthal, a partner at Saybrook Capital, a private equity firm that invests in distressed companies.

"Keep your paws off," he said. "If GM once again becomes an economic engine, it will be worth a lot of money, and the federal government will have no problem exiting."

One way to increase the chances of that happening is to enlist a venture partner -- "someone with some firepower" -- who will put up money alongside the government for a high return to make sure the businesses are managed as for-profit corporations, he said.

Others aren't so sure that the government has the political fortitude not to interfere.

Daniel Mitchell, an economist with the libertarian Cato Institute in Washington, said the Obama administration should divest as quickly as possible, even if that means abandoning any hope of cashing in on potential share appreciation.

The government has sunk so much money into the companies that a few billion dollars more will make little difference, especially compared with the potential for GM and Chrysler to become corporate contributors to the U.S. economy once they've been "freed" from what Mitchell considers the inefficient stain of federal ownership.

"It is a Catch-22. It's not good to sell stock at a loss, but there is no way for the stock to go up as long as the government is involved. We need to get these companies back into the private sector," Mitchell said. Otherwise, "These companies will be perennial bleeding sores for the U.S. taxpayers."

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Times staff writer Jim Puzzanghera in Washington contributed to this report.

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