REMAPPING DEBATE
Asking "Why" and "Why Not"

Exaggerating harm of Treasury's continued GM stock ownership

Story Repair | By Kevin Brown | Economy, Markets, Role of government

Sept. 26, 2012 — Last week, Ed Whitacre, former chairman and chief executive officer of General Motors, wrote in a Wall Street Journal op-ed that, "The Treasury Department should sell every last share that it owns of General Motors — as quickly as possible." Whitacre's comments echoed the sentiments of his successor, Daniel Akerson, GM's current chairman and chief executive. The New York Times has characterized Akerson as "long[ing] for the day that GM can finally say goodbye to its biggest shareholder."

WHAT IS STORY REPAIR?

In this feature, we select a story that appeared in one or more major news outlets and try to show how a different set of inquiries or observations could have produced a more illuminating article.

For repair this week: "U.S. Balks at GM Plan" (The Wall Street Journal, Sept. 17).

The story uncritically recites concerns that government ownership is a "stigma" and a "drag" on GM's reputation. We thought it would be useful to explore the extent to which those concerns have substance.

Note: Additional concerns recited in the Journal story — pay restrictions hurting the company's "ability to recruit talent" and irritation on the restriction on corporate jet use — are not the subject of this repair.

— Editor

That biggest shareholder is indeed the Treasury Department, which still owns some 500 million shares (or about 25 percent) of the new GM's stock.

(Treasury originally had a majority stake in the company in the aftermath of GM's bankruptcy, but sold a significant chunk of its holdings as part of the 2010 initial public offering, realizing about $14 billion from a net sales price of $32.75 per share.)

Were Treasury to sell its remaining shares at that IPO price, the Government's loss would be about $10.5 billion; selling at the current share price of approximately $24 per share, taxpayers would lose about $15 billion (if the Treasury had sold even more precipitously this past summer, when the share price had tumbled to $18.72 per share, the loss would have been far greater).

Akerson, Whitacre, and others inside and outside of GM have argued that it is important that GM shed its "Government Motors" label, one that, Whitacre wrote in the Journal, "is code for one thing: GM is a failure."

Remapping Debate's interviews with a GM official, with industry analysts, and with others, however, make clear that concerns about the reputational harm of continuing Treasury ownership are overblown; GM's product lineup and its global sales and profit outlook are much more important. Consumers, too, have cost and quality on their minds — while some consumers may have been bothered by the original bailout, there is no evidence that the Treasury's *continuing ownership stake* is harming GM sales.

Is Treasury ownership a concern for investors?

Not a significant one, if industry and stock analysts are to be believed.

Despite the fact that GM stock is selling at approximately $24 per share, compared with the $33 per share offering price of its 2010 initial public offering, Efraim Levy, senior equity analyst at Standard & Poor's Capital IQ, considers the stock "undervalued," and sees an "upside for the company materially above where they are now." In fact, the S&P September stock report shows GM as a strong "buy." Treasury Department ownership, Levy told Remapping Debate, may have a slight negative impact on perceptions of the company and on executive pay, but "I don't consider those [factors] to be material enough to change my investment thesis."

Dave Sullivan, an industry analyst at AutoPacific, also did not see Treasury stock ownership as a material negative for GM. He explained that he views the Treasury "more as a silent shareholder who is probably a lot more conservative than anybody [else] who would be investing in the company." Knowing that the Treasury will not dump its shares all at once is "a positive thing," Sullivan added. "I just wouldn't see it as a hindrance."

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Levy did note the potential perception of an "overhang of the stock" — that is, a concern that a large sell-off, now or in the future, could depress GM's stock price.

Jared Bernstein is a senior fellow at the Center on Budget and Policy Priorities, was the former chief economist and economic advisor to Vice President Joe Biden, and was a member of President Obama's auto industry restructuring task force. Bernstein said that concerns about Treasury ownership were in many ways similar to concerns about other large shareholders: "*any* time a major shareholder divests in a big way it can distort the market." In Bernstein's view, one special consideration in respect to Treasury ownership is the need to protect taxpayer interests. Beyond that, however, one should "just think about this as any other financial market transaction: such a large sell off without a very good rationale just doesn't make financial sense."

When Remapping Debate asked whether there were critical issues facing GM more important than the Treasury Department's stock ownership, analysts identified several, including the status of GM's struggling European unit (Opel) and a potential slowdown in the Chinese economy (where GM also has a significant presence). Other issues raised included the question of whether GM will be able to sustain its recent adaptability to changing consumer preferences.

Few consumers concerned about the government stake in GM

To the extent that there are consumers who might have qualms about the continued Treasury stake in GM, it is difficult to disentangle those qualms from other concerns arising from the company's decline and fall in 2008 and 2009. Sean McAlinden, the chief economist at the Center for Automotive Research, said that the company's bankruptcy, the auto bailout, and continued Treasury department ownership each have played a hard-to-quantify role in alienating some consumers. To the extent that disaffection with GM stems from the underlying bankruptcy or bailout, McAlinden said, those concerns are unlikely to "fade away with the sale of government ownership, especially if it makes permanent a loss of over 15 billion dollars [to taxpayers]." Dave Sullivan agreed: "Selling the Treasury stake right now is not going to change [some] people's minds, the damage [from bankruptcy and bailout] is done. And it is just a long term wound that will have to heal."

> "The bottom line is most people are looking at the value they get when they make a purchase."
> — Efraim Levy, S&P's Capital IQ

Despite the wound, according to Efraim Levy, "the bottom line is most people are looking at the value they get when they make a purchase." In the case of GM this bodes well, according to Dave Sullivan: "They have the goods to compete with everybody else. They have models that get very good fuel economy [and] they really have a very good array of products. I think when people go to look at them and see them on the road…they really have an attractive fleet of vehicles to offer. That is what can really change people's minds…The product lineup that they have invested in is really doing well for them. And it is really competitive."

Where is the evidence that Treasury ownership concerns consumers?

Despite recent attention to GM's purported "Government Motors" stigma, Jared Bernstein, the former auto task force member, is skeptical of the significance of those claims, saying, "I've just never seen the evidence of that." Greg Martin, GM's executive director of communications, agreed: "I can't cite you marketing data [showing an impact]…if that is what you are looking for. I can't."

Since the Treasury Department led GM through bankruptcy, meanwhile, the company has continued to bring new models to market and has moved out of the red, reporting a $7.6 billion profit in 2011. Additionally, its U.S. sales have grown from a low of fewer than 2.1 million vehicles in 2009 — about the same number of vehicles GM sold in the U.S. in 1962 — to over 2.5 million in 2011. Last month, meanwhile, saw GM post a 10 percent increase over its August 2011 sales. “Nothing is perfect,” Bernstein commented, “but these are not the numbers of a company that everybody is shunning because the government is a shareholder.”

Despite the desire to have Treasury sell it’s shares, GM’s Martin pointed out that “the interesting thing is that Ford actually lost market share more than we have during this period [2009-2010].” Indeed, according to data from WardsAuto.com, not only did GM’s global market share decline by marginally less than Ford’s from 2009 to 2010, but its market share grew more rapidly than Ford’s in both absolute and relative terms between 2010 and 2011. “If you were to write that based on sales and revenue alone that there is no discernable effect on the company,” Martin said, “I wouldn’t talk you off that.”

Why talk about it at all?

Isn’t it actually counterproductive for GM to keep a concern about “Government Motors” in the public eye? Even as Greg Martin reiterated that “we look forward to a quick and orderly exit sooner rather than later,” he acknowledged that discussions of government ownership issues at GM “diverts from the real and significant progress that this company has made.”

Sean McAlinden, the chief economist at the Center for Automotive Research, believes that the chatter about getting rid of Treasury ownership is a function of the style of GM’s chief executive: “Mr. Akerson, if he has a plan, it is to be impatient all the time.” McAlinden said that this impatience contrasts with what had been a “terrible culture of indecision, vested interest, [and] round robin delay.”

But, as Dave Sullivan put it, “If I were GM I would probably keep my mouth shut and work really hard to keep that stock price up so that I can give the Treasury a reason to sell, instead of asking them to do it.”

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