VIEWPOINT
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GM Bankruptcy's Impact on Michigan

By David L. Littmann

Summary

The impact of GM's trouble is assessed by David Littmann, who argues that Chapter 11 bankruptcy protection and sweeping public policy reforms could still save GM.

Main Text Word Count: 680

In 2002, GM was the world's largest automaker in terms of vehicles sold and total revenue, despite devastating effects on auto sales from the Sept. 11, 2001, terrorist strikes. Globally, GM still employed more than a third of a million people, more than 100,000 in Michigan. GM had already shed 14,000 jobs between 2001 and 2002 in response to plummeting sales, but had begun downsizing and restructuring as early as 1986.

Layoffs and tough business cycles, therefore, are nothing new to GM or Michigan. After all, Michigan has traditionally been the center of GM's white-collar (salaried) employment. Periodic recessions always meant a drier well of corporate tax receipts to state and local governments and belt-tightening throughout the auto, auto-supplier, and retail goods and services industries.

Things are very different today. The business cycle is the least of Michigan's worries. How can we best measure the likely impact of GM bankruptcy?

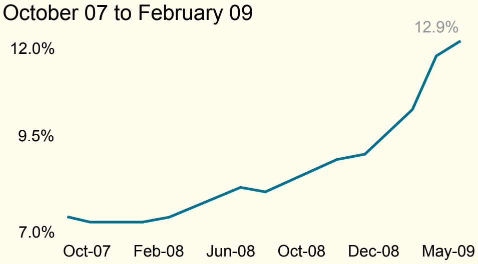
A highly visible facet of GM's vanishing profits is the loss of bonuses. Both wage and salaried workers typically received year-end bonuses along with what were among the most generous pension and health care benefits in the entire U.S. private sector. Even with tremendous red ink on income statements and horrendous depletion of market share, GM announced as recently as 2004 that workers would receive $195 bonus payments, down from a peak payout of $1,775 per worker in 1999.

That 1999 bonus payment alone boosted Michigan's economy by nearly half a billion dollars. Together with Chrysler, Ford and bonus-paying auto suppliers, Michigan received upwards of $1.2 billion in stimulation. During the halcyon years, these annual add-ons to ordinary auto company compensation rates (which themselves approximated 42 percent above the average compensation package in the United States) represented an economic adrenalin surge, accounting for as much as half of 1 percent of Michigan's gross state product.

Newspaper interviews with bonus recipients from 2000-2005 tell of increasing reluctance to spend the proceeds on larger boats or expensive big-ticket items. Instead, bonus recipients showed greater awareness of the tax bite (share of bonus going to government) and their need to repay debt.

Michigan Unemployment

October 07 to February 09



This graph shows the increase in Michigan's unemployment since the Legislature and Gov. Jennifer Granholm raised taxes by $1.7 billion in October 2007. David Littmann, senior economist for the Mackinac Center, predicts the state's unemployment could reach as high as 20 percent by the end of the year due to the financial difficulties of Chrysler and GM.

Source: Data from the Bureau of Labor Statistics

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Less visible consequences of the GM bankruptcy are the reductions in visits and payments to health care providers. Termination of dental, vision, and supplemental medical programs and insurance options for retirees already has cost physicians millions of dollars and tens of thousands of patient visits annually. Also, union and management will be front-ending their revised labor contracts by paring back lavish health care benefits while altogether terminating idled employee who were still collecting pay and fringe benefits in what came to be known as "rubber rooms." In every case, waves of unprecedented caution will pervade household spending plans of GM workers and those whose incomes were largely determined by expenditures and investments by GM and its workforce.

GM's greatest hope for revival lies with booming sales prospects in China and Chapter 11 bankruptcy protection in the United States.

Some of Michigan's current economic and financial pain simply reflects prior GM layoffs and profitless years. With the end-game in sight, many more Michigan layoffs and dealership and plant closings are imminent. These adjustments, regardless of the nature of the looming bankruptcy, will consign Michigan's economy to at least two years of further decline. This could mean an unemployment rate of 17 to 20 percent by year's end, and a shrinking of the auto industry's portion of the state's tax base from what once was 26 to 30 percent to around 10 to 12 percent.

Less burdensome state and federal taxes and regulations on earnings, investments, energy, labor, environment and car mileage would help immeasurably. Under the current Congress, Legislature, president and governor, the likelihood of a more favorable business climate developing is miniscule. Without a surge in confidence and discretionary personal incomes, it becomes extremely challenging even for Toyota and Honda to make money in the United States, with total sales below 15 million units.

GM's greatest hope for revival lies with booming sales prospects in China and Chapter 11 bankruptcy protection in the United States. Chapter 11 would grant GM an urgent realignment of unit labor costs. Together with its finest-yet vehicle lineup, GM might yet astound the world on the upside.

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