

General Motors Bankruptcy? An Economic Nightmare

By [Andrew Hughes](#)

Global Research, November 04, 2008

4 November 2008

Region: [USA](#)

Theme: [Global Economy](#)

“A GM default would be absolutely huge,” said Jonathan Loreda, of credit manager Cairn Capital. “It would be the biggest thing to hit the market in terms of losses and operational stress.”

That was in March 2006.

“Overall, General Motors sold 168,719 vehicles in October, down from 307,408 in the same month last year, while Ford, including its Volvo brand, sold 132,278 light vehicles last month down from 189,515 in the corresponding month last year. Mike DiGiovanni, GM’s executive director of global market and industry analysis, called the situation “frightening” and “dire.”

That was yesterday from Forbes.

Has the Treasury just decided to defer a politically unpalatable decision until after the election or are they throwing in the towel ?

If GM is allowed to go bankrupt, the derivative nightmare will unravel in full daylight and bring down any institution that is not anchored with solid gold. It has been obvious from the start that the bailouts and financial “stimulus” packages have been delivered for one purpose and one purpose only: Helping the Banking community to triage the self inflicted wound of over- leveraged speculation.

Theoretically, the amount that GM is looking for to retool its plants, moribund as they are, is small change to what has been doled out so far. But, even if they were to retool and start producing more fuel efficient vehicles, who is going to buy them ?:

“Today, Honda and Nissan in Japan have announced reduced earnings forecasts and lack of demand in Europe and the US for their products. Honda lowered its global car sales forecast for this year by 65,000 units to 4.015 million units, while Toyota is also reporting a severe contraction to Europe, India, and the US. Meanwhile in the US General Motors Corp, Chrysler LLC and Ford Motor Co are struggling to stay alive and are burning up their cash reserves at breakneck speed as they try and retool to manufacture more fuel efficient vehicles. They are in for \$30 Billion of taxpayer money to help them along with this. However, one problem remains.

The US Consumer is strapped for cash and access to credit to buy a new car is almost gone. It is cheaper to keep what you already have and repair it if necessary. This works out to be the only way that the US can stay mobile.

Extremely few consumers buy new cars for cash. The glut in SUV's was financed by easy credit and not by people who dipped in to their savings to treat themselves. Even if a Toyota Yaris gives twice the mileage compared to a Chrysler or a Ford, who has the money to swap cars ? It's impossible to sell secondhand gas guzzlers so that avenue of finance is closed. It is impossible to get a loan so that avenue is closed as well. So maybe you buy a second hand Honda down at the local car lot. Is this going to boost new car sales ? Nope. So even if GM / Chrysler / Cerberus Capital survive until they have retooled their shiny new factory, will what comes off the production line go straight to the US Consumer ? Nope. . So here we have another good example of throwing good money after bad to prop up industry without propping up the very thing it depends on. The Consumer. One last thing to note. The amount of derivatives connected to GM are astronomical ; that's why there is such an effort to keep it alive on the Oxygen machine to delay the impact it will have on all the counterparties involved. \$4.72 trillion owed by Bankrupt countries in the emerging / moribund markets to the rest of Europe; This will be small change when GM unwinds. " (See <http://meltdown101.livejournal.com/11100.html>)

Instead of putting the cash into GM, the Treasury would prefer to invest it in Fuel Efficient Vehicle research, the fruits of which would be available to all US Auto companies, if any are still standing. But it still comes down to the simple arithmetic that is consistently ignored in mainstream discourse: If the population is broke, jobless and homeless, there is no point in wasting money putting products behind showroom glass while the intended consumers can only press their noses against it and dream.

Even if they are leaving the crying baby for Obama to deal with in January, (and he has said that he is in favour of helping GM financially), the situation will be gravely worse by then anyway and GM will probably be way down the list as he finds himself with a situation that even FDR could not begin to comprehend.

The original source of this article is Global Research
Copyright © [Andrew Hughes](#), Global Research, 2008

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Andrew Hughes](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca
www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca