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G.M.'s Troubles Stir Question of Bankruptcy

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Momentum is building in Washington for a rescue package for the auto industry to head off a possible bankruptcy filing by General Motors, which is rapidly running low on cash.

But not everyone agrees that a Chapter 11 filing by G.M. would be the disaster that many fear. Some experts note that while bankruptcy would be painful, it may be preferable to a government bailout that may only delay, at considerable cost, the wrenching but necessary steps G.M. needs to take to become a stronger, leaner company.

Although G.M.’s labor contracts would be at risk of termination in a bankruptcy, setting up a potential confrontation with its unions, the company says its pension obligations are largely financed for its 479,000 retirees and their spouses.

Shareholders have already lost much of the equity that would disappear in a bankruptcy case. Shares of G.M. rose 16 cents Wednesday, to $3.08, but they have fallen 90.5 percent over the last 12 months, amid sharply lower auto sales and fears about G.M.’s future.

And as companies in industries like airlines, steel and retailing have shown, bankruptcy can offer a fresh start with a more competitive cost structure to preserve a future for the workers who remain.

“Just let market forces play out,” said Matthew J. Slaughter, associate dean at the Tuck School of Business at Dartmouth. “And if G.M. or one of the other companies files for bankruptcy, support the workers and the communities that would be affected by a bankruptcy filing.”

William Ackman, a prominent activist investor who runs Pershing Square Capital, said Tuesday that G.M. should consider bankruptcy. “The way to solve that problem is not to lend more money to G.M.,” he said in an interview with Charlie Rose on PBS.

Instead, G.M. should submit a prepackaged bankruptcy, laying out steps it plans to enact once in Chapter 11 protection, said Mr. Ackman, who is not a major holder of G.M. shares.

“I’d rather the government’s money be used to train people for other jobs,” Mr. Ackman said. “The bankruptcy word scares people. It’s simply a system.”

Not surprisingly, Rick Wagoner, G.M.’s chief executive, disagrees. He told investors last week that “the consequences of bankruptcy would be dire and extend far beyond” the company. G.M. will “take every action we possibly can to avoid it,” he added.

The company also may be forced to take drastic actions as a condition of receiving any federal bailout package. It may include stiff requirements that G.M. and other automakers restructure and meet financial goals before they can get access to federal financing. Lawmakers may also demand a change in management.

Such demands “may have the same end as a restructuring,” but avoid the taint of an actual bankruptcy filing, said Susan R. Helper, a professor of regional economic development at Case Western Reserve University.

Even though a bankruptcy might help create a stronger company in the long run, consumers could easily see it as a sign that the cars they bought might not retain their value, and seek other options when shopping for a new car. (By contrast, travelers tend to have fewer concerns about flying on airlines operating in bankruptcy because their commitment ends with the flight.)

A car is “a major investment for a lot of families and the assurance that it will perform for a set period of time is part of the bargain,” said Christie L. Nordhielm, an associate professor of marketing at the University of Michigan.

To help ease consumers’ fears, G.M. could put money in escrow to reimburse its 6,468 dealers for any repairs to address problems covered by warranties. Airlines have taken such steps in the past to guarantee the value of tickets for future flights.

A study of 6,000 consumers last summer by CNW Marketing found that 80 percent of them said they would switch companies if G.M. or Ford filed for bankruptcy protection in the United States, suggesting that only G.M. loyalists would stand by the automaker.

A bankruptcy filing by a single Detroit car company could cost the economy $175 billion in the first year of the legal case in lost employee income and tax revenue, the Center for Automotive Research estimated this week. Given the complexity, a G.M. bankruptcy case could last three years or more.

A bankruptcy at G.M., with $111 billion in assets, would rank as one of the biggest bankruptcies ever, but would still be dwarfed by the case filed by Lehman Brothers last spring.

There are parallels between the Lehman bankruptcy and G.M.’s situation. In each case, the government was faced with deciding whether it was worth favoring one entity over its competitors as it worried about the impact on the broader economy of a potential collapse.

Certainly workers in other industries who have lost their jobs may feel the government should extend more help to them, too.

“Why should the government treat G.M., Ford and Chrysler workers any differently?” said Professor Slaughter.

But the United Automobile Workers union, which has joined the automakers to push for a bailout, might find grounds for a strike if a bankrupt G.M. asked a court to throw out its labor contracts.

A bankruptcy also could jeopardize the fate of a health care fund created in 2007 that was supposed to shift a $100 billion burden off the companies’ backs. The U.A.W. recently agreed to let G.M. delay payments to the fund.

Professor Helper, of Case Western Reserve, said the social cost to communities in Michigan, Ohio and other states where its 55 plants and other operations are located could be devastating, if G.M. were to liquidate or significantly cut its work force.

“Even if they go bankrupt in a year, it is better than going bankrupt now,” given the state of the national economy, she said. “From a social point of view, even if G.M. is not providing a return on investment, it is still providing a lot of good jobs.”

Mary M. Chapman contributed reporting.