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**EDITORIAL**

## **If Bankruptcy Hits Detroit**

Congress has given Detroit's flailing automakers less than two weeks to come up with a restructuring plan that would justify giving them tens of billions of taxpayer dollars and ensure that they have a reasonable path back to profitability. We hope it is a good plan, because the lame-duck Congress does not have a choice.

Michigan's three car manufacturers have said that they would go bankrupt this year without an infusion of taxpayers' money. Failing to provide it would be a truly irresponsible act that could obliterate one or more companies, potentially causing other bankruptcies and costing many hundreds of thousands of jobs.

Unpalatable as it seems to underwrite the proven record of failure of Detroit's automakers, Congress must provide sufficient money to shore them up until the Obama administration takes office. Then, the new president and new Congress can decide how to manage either a rescue package with tight strings attached or a bankruptcy process that ensures the fallen companies have a reasonable shot at picking up the pieces.

Bankruptcy proceedings are designed to allow ailing companies to be restructured into profitable businesses, but that is by no means guaranteed — and it requires infusions of credit.

In the current financial environment, where even the soundest companies are having trouble getting loans, the government would have to guarantee that financing is available so that any car company under bankruptcy protection could keep operating and paying its workers and suppliers while it is restructured.

A bankrupt carmaker would face another tricky problem: how to keep consumers from shunning its cars out of fear that it might not be around to honor its warranty. Any bankruptcy financing given to a car company should be enough to buy warranty insurance to cover its fleet.

None of this guarantees an orderly restructuring. A company in bankruptcy proceedings could try to avoid making tough choices and coast through on the government dime. Insuring warranties might create an incentive for the company and its workers to relax on quality control. But these concerns might be addressed by tying worker and executive incentives to car quality and establishing a ceiling for government bankruptcy credit.

To get America's carmakers back on their feet, difficult choices will have to be made — including cutting labor costs and the cost of health insurance. That is likely to mean selling off some product lines, laying off workers and closing the least productive plants. It could mean renegotiating the deal with the auto workers' union to pay billions into a fund to cover retiree medical costs.

Taxpayers will end up with a big liability even if the company turns around and is able to repay its debt to the government. The Pension Benefit Guaranty Corporation is required to cover a substantial portion of the

underfunded pension liabilities of any bankrupt company.

Economists Luigi Zingales and Joshua Rauh of the University of Chicago estimated that if General Motors were to collapse, underfunded pension liabilities would cost taxpayers roughly \$23 billion.

It would still be our choice that the restructuring of blundering auto companies occur in an orderly way and be combined with a national strategy to deliver more fuel-efficient cars. Congress, so far, has failed in its duty to help make that happen. What must be avoided at all costs is for a big car company to spiral into liquidation.

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