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STATE RESCUE PLANS: THE GERMAN GOVERNMENT'S ATTEMPTS TO SAVE OPEL

HELMUT BECKER*

Introduction

Short question, short answer: Yes, the so-called “staatliche Rettungsplan” (State Rescue Plan) for Opel, as suggested by Merkel’s government, has failed – spectacularly. And that it has failed is good!

What is the reason for this seemingly harsh judgement? To provide a plausible answer, the following two questions will be addressed below, namely,

- Whether basically a government plan to “save” Opel would have been acceptable, both in terms of Germany’s basic regulatory framework, its free market and industrial policy? and
- How Opel – if at all possible – could have been saved within the policy framework of a free market system?

First a critical – more semantic rather than economic – remark on the media spectacle surrounding what was referred to as “saving Opel”. Basically it should be noted that the state is not capable of “saving” a single enterprise, unless it is nationalised and maintained at the taxpayers’ expense. As long as the concerned enterprise still has to assert itself vis-à-vis competition, it is simply inaccurate to equate the willingness or non-willingness of the state with “saving” or “not saving” the endangered enterprise – in this case Opel. What incredible confusion and decline, both linguistically and in terms of the free market! With all political sides assuming the language of the media in an effort to attract voters – by equating government credit for Opel with saving Opel – expectations were aroused amongst the Opel

workers and the public vis-à-vis the government that do not exist in a free market system. All the more painful was the slap in the face for German politics when in the end GM refused to sell Opel.

In a nutshell: in the long run government subsidies alone have never been able to save a company and jobs. That was not even possible in the former GDR. In the end only wise management, committed and productive employees, and, of course, high-quality and saleable products – products that are reasonably priced and competitive – can save a company. The long-term failure of Opel and especially the abrupt financial problems of the GM subsidiary are indicators that several of these conditions were clearly not fulfilled. It was gross negligence on the part of German politicians not to criticise the media’s equation of subsidy with saving from the very beginning.

Is government support for Opel acceptable?

Now to the core questions: would governmental support for Opel have been acceptable in terms of the free market system and within the German regulatory framework?

For free-market purists – and not for automotive experts – the answer to this question can only be a clear no! The arguments are obvious:

- The markets in the Western industrial countries are to a large degree saturated; all of the automobile manufacturers located here suffer generally from high overcapacities of between 20 and 30 percent and cut-throat price wars. To wit: a competitive war of extermination, similar to that described in a textbook on oligopoly, is going on now; a market clearing is unavoidable and weak producers will be eliminated. According to those critical of the economic recovery plan, it rightly affects Opel as the clearly weakest market participant. The government’s recovery plan was aimed at preventing this from happening.
- Government structural subsidies – if they are unavoidable – should only be aimed at a mitigation of the overall negative economic and employ-

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ment effects of a necessary structural change, not at its prevention by structural preservation. The goal of the federal government was, however, not to cushion Opel's exit from the market but to prevent it by providing guarantees for all of Opel's German locations without reducing the number of employees. This contradicted both the criteria for welfare as well as the rules governing European policy on competition.

- The government sought out the investor promising the fewest changes in employment numbers, not the best investor for the future of Opel. The federal government was thus seeking a short-term political solution, not a long-term market-oriented and operational solution. When, after Frau Merkel's political decision in favour of Magna, the respected economic experts in the trust transaction – Dirk Pfeil and Manfred Wennemer – were replaced or resigned in protest, it was a PR fiasco for Merkel's government. Both gentlemen deserve credit for their firm stance on behalf of regulatory policy within a free market system vis-à-vis the tactical politics motivated by the election.
- Government subsidies that accompany an inevitable structural change in an industrial sector should not aim at individually selected companies but must safeguard the principle of equality for sector members in accordance with regulatory policy. In this example financial guarantees would have to be made available not only to Opel but also to the automobile manufacturers Ford, Volkswagen, BMW and Daimler. This did not happen.
- Finally, if the German government decides that Opel should be carved out of GM and sold to a new investor, taking a dowry of around EUR 4.5 billion with it; if it persuades the parent company GM to practically give away its property, namely Opel, to the best investor while retaining 35 percent via a neutral trust company, then it has to follow the rules of the game. The chancellor did not do that. By settling on Magna as the investor prematurely against the declared preferences of GM for RHJI, the government not only violated the rules of fair competition between several potential investors but also infringed upon GM's reservation of ownership. In the German legal system it is not possible to sell something that one does not own.

As was expected by strategists, GM decided on 4 November 2009 to keep Opel as a technology asset instead of giving it away to Magna and a Russian bidder. This stopped all the sins against the Germany

regulatory framework of a free-market system that all the state-supporting parties within and outside federal responsibility as well as the heads of the Länder regardless of their political hue had been committing for decades.

It is to Edward Withacre that Merkel's government owes its thanks for committing one less sin. On 4 September 2009 he prevented GM's board from selling Opel to Magna. This spectacular event should be examined more closely as it is important for the future of Opel.

The 68-year-old Texan was selected personally by President Barack Obama at the end of June 2009, shortly before the end of the six-week insolvency phase of the old General Motors as the head of the board of directors of the new General Motors. Withacre, called "Big Ed", was already in retirement. Previously he was the successful and tough CEO of AT&T, which he turned into one of the world's largest American communication corporations.

Coming from outside the industry, Withacre candidly announced at the very beginning that he knew nothing about automobiles. As experience shows, this is not a criterion for being nominated to the highest GM management level. What counted was his strategic vision and his ability to lead even small companies to success on a large scale. And thus to turn the USD 70 billion of taxpayer's money that Obama's government spent on saving GM, the national flag-ship company, into a successful investment.

The plan of the old GM management and Merkel's government to sell Opel failed. The board of directors of the new GM under Ed Withacre decided on 4 November 2009 to keep Opel as a European bastion, to restructure and revitalize it on their own. A speedy reorganisation plan was promised by GM, also the repayment of the financial funds provided by the German government within the agreed time limit.

The problem of equal competition

The second question remains. Are the critics right, and even if conflict with the EU subsidy criteria due to the one-sided focus on German locations were avoided, should a government subsidy for Opel be objected to in principle on the basis of equal competition within the German industrial regulatory framework?

Here the answer is not as clearly negative in a free-market framework as to the first question. First of all it must be considered that with the market exit of Opel not only 25,000 employees would have lost their jobs with Opel in Germany but at least another two to three further jobs per employee would have been greatly endangered all along the supply chain. If, based on a conservative estimate, we assume for Germany alone a total of 50,000 endangered jobs, this corresponds, including families, etc., to the population of an average city that would be affected by Opel's market exit.

To avoid misunderstandings: jobs alone can and must not be the reason for delaying an inevitable market clearing with taxpayers' money. In this case the social costs of an artificial extension of Opel's existence using tax money would be greater than the social benefit of reallocating the workforce. Using tax money for the purpose of "saving" a single enterprise – independent of its size and its impact on employment – is only economically justifiable if the company in question has, firstly, sufficient substance and prospects for the future and secondly if its financial plight was caused by unfortunate circumstances and not by itself. A hypothetical example of this would be a parent group of companies whose long-term mismanagement resulted not only in its own but also in its European subsidiary's downfall. How that happened – whether because of incapable management, a misguided policy model or financial bleeding through internal pricing – is inconsequential. What remains is either a market exit or turning to the government for financial support.

Opel's case is in many respects similar to the above example. At least in terms of the second requirement for government support is met: sufficient substance and prospects for the company future. Within the automotive industry it is clear that Opel with its 700 engineers has an excellent international development centre. In the past the corporate group's headquarters in Detroit profited considerably from its know-how in the US domestic market but its performance was hardly or not at all paid for in the last few years. This is one of the reasons for Opel's malaise. How important this development centre is for the GM corporate group can be seen by the fact that GM wants to retain its subsidiary to secure for itself a slight chance of survival in the American market. If Opel as an old German car manufacturer with a long tradition had disappeared from the market, it would have been a bitter loss for automobile know-how in its German industrial location.

Conclusions

Thus, with this technological potential Opel has sufficient substance as an enterprise to compete independently in highly competitive markets. Opel only needs the chance to show that it can. Other manufacturers, such as Volkswagen, Ford, Renault, Peugeot and Fiat, etc., must first prove that they are better. Which company and which brand will survive is decided in the end by the market, not by a civil servant in the economics ministry or with the cartel authorities. To the contrary, a highly productive Opel will most certainly increase competition in the automobile markets – for the benefit of the consumers. That is the way the free market system functions, even if some professors of business economics that focus on the automotive industry don't think this is the case.

Space limitations do not allow me to go into detail here on GM's new financial rescue plan. The fact is that there are considerable strategic weaknesses at Opel that must be attended to by the new GM management: inconsistencies in the European organisation of its locations – in the meantime the new Opel CEO Nick Reilly has announced the closure of the Antwerp factory – the one-sided focus on the saturated western European market, the gaps in its programmes for models and motors, etc. All these weaknesses, however, have to be blamed on GM's mismanagement of the past. It is important for Opel to be able to take its future in its own hands and to decide independently on company strategy. It is now conventional wisdom in the global automobile industry that companies with a production volume of only EUR 1.5 billion units are too small to survive in the long term on the global market. In this respect Opel as a part of GM is a basic requirement worth considering. Another important step would be a stronger financial participation in a future Adam Opel AG on the part of a committed and highly-motivated workforce and its distributors – both stakeholders that have a strong interest in a secure future for Opel. Unfortunately, to date none of these steps has been taken!

These suggestions would set the course for the future, but the company itself has to steer the boat – the government can't help here! How successful a company can be in a large group despite a dominant parent company is evidenced with unusual clarity by Audi – also the model for Porsche integration.

Should GM develop as Volkswagen has with its 10 brands – with Ed Withacre there is hope – the

chances would be high that the Cinderella of today could turn into, if not the daughter of a queen, at least an attractive woman. Thus it would be possible to find one day an attractive husband to start “the economies of scale” by own means. This would be desirable for all Opel employees after all they have gone through in the last thirty years of continual decline. Nothing is better for success than success!