

# General motors and its impact on economy

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## General Motors and its Impact on Economy

The present year has been marked with financial crisis and recession. The economic downturn that has bombarded the nation has also caused much suffering to those who have lost jobs, profits, and a life of comfort. The impact of recession is not only experienced in the country but also in other parts of the globe. The closing of various companies has left millions of people unemployed. The increasing rate of unemployment has created a loss on the profit on the part of business owners.

Notably, recession has affected every sector in the society and did not spare even the car industry. Recently, the economic environment has gone murky because one of the companies in the ever-growing and stable automobile industry has declared itself bankrupt. General Motors (GM), country's greatest manufacturer of car, filed for bankruptcy a few days ago due to its growing debt and loss in profit (Tullo 8). As a result, the government has also stepped into the situation to aid the company because of its impending effect on the U. S. economy.

The bankruptcy of General Motors has become a big issue in the world of business because it reflects the significance of the impact of recession on the financial status of well-established businesses such as General Motors. Apart from that, General Motors has maintained constant stability for several decades. However, despite its stability over the years, it was placed on the brink of dissolution. This shows that the bankruptcy of General Motors poses a considerable threat to the economy of the country.

Historically, General Motors Corp. was founded in 1908 by William C. Durant, an entrepreneur from Flint, Michigan ("General Motors Corporation"). Durant believes that manufacturing only one model of car is vulnerable to bankruptcy; hence, he formed the General Motors Corp. and acquired more than two dozens of companies manufacturing cars which include Buick and Olds Motor Vehicle Company ("General Motors Corporation"). The following years, Oakland Motor Car, later named as Pontiac, and Cadillac Automobile Company merged with General Motors ("General Motors Corporation"). In 1910, Durant established the Chevrolet Motor Company to compete with Ford Motor Company's Model T ("General Motors Corporation"). This was followed by the acquisition of Dayton Engineering Laboratories Company (Delco), a car parts manufacturer ("General Motors Corporation").

General Motors went through several managements which include William Durant, Pierre S. du Pont, Pierre S. du Pont Jr., and Alfred P. Sloan ("General Motors Corporation"). General Motors continued to acquire several car manufacturers like Vauxhall Motors, Opel AG of Germany, and Yellow Cab ("General Motors Corporation"). The continuous growth of General Motors paved the way for making itself as one of the world's largest car manufacturers ("About GM"). It is noteworthy that in 2008, it has recorded a sale of 8.35 million cars and trucks sold globally under various brands such as Buick, Cadillac, Chevrolet, GMC, GM Daewoo, Holden, Hummer, Opel, Pontiac, Saab, Saturn, Vauxhall, and Wuling ("About GM").

This year, General Motors has filed bankruptcy as a consequence of recession. Various car companies such as Chrysler have also filed bankruptcy a few months ago. However, before General Motors was dissolved, President

Obama had committed to financially back up General Motors by lending \$30 billion to the firm apart from the \$19.4 billion that the government had previously given (Isidore). The government of Canada has also extended its financial support. After bankruptcy, General Motors will now be under new management.

Primarily, the bankruptcy of General Motors has had an immense impact on the country's economy as observed from the government's initiative to lend its financial reserves to save the company. The act of the government was triggered by the fact that leaving General Motors behind would cause heavier financial loss and economic stress. Notably, General Motors was the largest private employer in the country because it was able to employ 618,365 individuals in 1979 (McKee). However, due to its financial situation, more and more GM employees have lost their jobs. Apart from that, several companies dependent on car industry have also begun to shut down. With the continuing struggle of General Motors in the industry, more jobs are threatened to be lost and the unemployment rate may reach its toll. In order to avoid such a situation, the government has stepped into the picture.

General Motors, from its inception, has already created an impact on the country's economy. With the creation of General Motors, more jobs were also generated. In addition to this, the government revenue has also increased. Notably, General Motors does not only support its employees but also thousands of employees indirectly working for them. General Motors does not work alone and cars are not completed by the company alone. In the manufacturing of cars, there are various parts exported from other countries and manufactured by other companies. These manufacturers of car parts are

dependent also upon the need of car manufacturers. Thus, when General Motors filed for bankruptcy, many companies were also affected, one of which is Visteon, a major car parts maker, which also filed for bankruptcy (Trumbull). There were also 40 other firms which have sought bankruptcy protection this year (McKee).

Aside from the manufacturers of car parts, various sectors such as car dealers, car insurance, shipping, and other industries will also be affected. In the chemical industry, cars are also essential to its existence (Tullo 8). Some of the chemicals used are nylon resins under the hood of polyurethane foam seat cushion and sulfuric acid used in steel processing (Tullo 8). With the lowering demand of cars, the production of these chemicals also decreases. The impact of the possible collapse of General Motors has also been felt by the dealership, design shop, and advertising companies (Trumbull). These companies are employing thousands of employees. With the bankruptcy of General Motors and other car companies, these industries depending on them will also suffer. The decrease in car demands also affects other car companies that are employing thousands of employees. With this scenario, not only will the public be greatly affected but also the economy. The shutting down of various companies will lessen the revenue of the government. Moreover, the increasing rate of unemployment will force the government to use its financial reserve to create temporary jobs for the displaced and retrenched workers. Subsequently, the unemployment will also be detrimental to other industries because demands on various goods and services will go down. Hence, with the bankruptcy of General Motors, various industries and employees will also suffer.

Despite the effort of the government in saving General Motors, the reorganization of the company will certainly affect the nation's economy. According to the company, they are planning to phase out or sell some of its cars such as Hammer, Pontiac, Saab, and Saturn as a strategy to save the firm from complete downfall (Trumbull). Aside from that, the company also plans to cut 20, 000 of its jobs (Trumbull). The National Automobile Dealers Association further declared that 58, 300 jobs will be lost from 1, 100 dealerships industries (McKee). With these possible situations, the whole industry and dependent industries will surely be shaken financially.

Additionally, the bankruptcy of General Motors will also affect the society, especially the foundations and charitable institutions it has continually supported. Various people are depending upon the support of the company especially during disasters and calamity. For example, in 2005, it had recorded an amount of \$61 million given to charitable institutions through cash and in-kind donations and participation in charitable activities (" About GM"). Also, during the Hurricane Katrina, General Motors was among the companies that immediately responded to those in need of help (" About GM").

On the contrary, many economists say that the bankruptcy issue on General Motors will not greatly impact the county's economy. According to Mark Zandi, " Bankruptcy is irrelevant in terms of the economic consequences of what's happening to GM" (" Analysts Weigh Economic"). In the history of General Motors, it had experienced financial downturns, but it was able to survive even without the government behind it. This time, the bankruptcy will not really impact the company because the government is willing to save

the company and is partnering with the Treasury in the continuance of its business. Hence, the bankruptcy will not totally impact the country's economy.

To sum up, since its establishment in 1908, General Motors has continued to grow by acquiring other car companies having different models. The company is the main producer of the luxurious and well-known cars such as Hummer, Pontiac, Buick, Cadillac, and Chevrolet among others. The company also reigned to be the largest manufacturer of car in the country. It has also been considered as the firm with the highest hiring rate among the private companies. The company has been essential to the progress of the country and the improvement of its employees' lives. It has also been a partner of the government in sending help to those in need through its commitment to charitable works. More importantly, the company has been indispensable in numerous industries in the country.

However, a few days ago, the company filed for bankruptcy. The present situation of General Motors poses a great threat to the country's economy. Since the beginning of recession, General Motors and other car industries have already been experiencing huge financial problems. The car demand has greatly affected the company. Consequently, the country's economy has also been affected because millions of jobs were lost and the unemployment rate continues to increase. Many industries dependent upon the company and the car industry have also been affected. In fact, several firms have also filed for bankruptcy. Many were also left jobless. With the consequences of the recession and crisis being experienced by General Motors, it is deemed clear that it has greatly affected the country's economy.

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