



Bombardier, Inc.: What Exactly Should Justin Trudeau Do?

Description

In a [recent article](#), I argued that Canada can't let Bombardier fail. The company is simply too important an employer to be let go, and besides, other aerospace companies around the world receive government support, too.

Yet at the same time, Canada can't get in the habit of bailing out troubled companies. The practice mocks free-market principles, disrespects taxpayers, and hurts an economy in the long run.

Fortunately, there is a perfect solution to this problem, and it mirrors what happened with the auto companies back in 2009.

What made the auto rescue so effective?

The rescue of **General Motors Company** ([NYSE:GM](#)) and Chrysler remain unpopular to this day in Canada, and for good reason; taxpayers lost \$3.5 billion.

But down in the United States, the program is viewed as an overwhelming success. The reasons are quite clear: it cost a very minimal amount in the end, and it saved millions of jobs. Even while campaigning for president in 2012, Mitt Romney was attacked for his opposition to the auto rescue.

So what made the auto rescue so effective? To answer this question, let's focus on GM. The company had actually made great strides prior to 2009. For example, the company had dramatically improved the quality of its cars and had significantly reduced the manpower required to make them. Unfortunately, it was too late. The company had too much debt, its pension obligations were too onerous, and the recession proved to be the final blow.

The federal government then stepped in and provided capital. A "shiny new GM" was then created, one in which the bondholders, the employees, and the government split ownership. As for GM's old shareholders, they were wiped out. And GM's CEO was pushed out the door.

The biggest beneficiaries ended up being GM's employees. The bondholders got some of their money back, too. But shareholders were not bailed out at all, and neither was senior management. This

helped minimize the moral hazard problem that comes with bailouts.

Why this is appropriate for Bombardier

Bombardier actually has a lot in common with GM: it has too much debt, it has a high cost structure, and it has ineffective management.

Yet Bombardier is not asking for what GM got. Instead, they are asking for capital, but without any change to the corporate structure. The Bombardier/Beaudoin family would remain in control, even though they're the ones who got Bombardier into this mess in the first place. This would create a big moral hazard.

Instead, Mr. Trudeau should simply wait. If Bombardier is able to turn around on its own, then great. Otherwise, Bombardier can be rescued, but only in a manner similar to the GM rescue seven years ago. The company could then start over, free from its burdensome balance sheet and free from the Beaudoins' control.

Of course, if Mr. Trudeau takes this approach, then existing shareholders could face some steep losses. That alone makes the stock far too risky. Your best bet is to look elsewhere.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:GM (General Motors Company)
2. TSX:BBD.B (Bombardier)

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/09/26

Date Created

2016/01/07

Author

bensinclair

default watermark