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US auto bailout was necessary: analysts

The US auto industry could have gone belly-up if Washington had not rescued GM and Chrysler in 2009, analysts say, as Republican White House hopefuls continued to call the bailout another sign of "big government" invading business.

Days before primary votes in key auto industry states of Michigan and Ohio, Republican frontrunners Mitt Romney and Rick Santorum are blasting President Barack Obama for not leaving the two imperiled auto giants to the dynamic processes of the free market and private capital.

But economists say that the $80 billion rescue was unavoidable because, with the financial system also crumbling at the time, there was no private capital ready to pick up the pieces.

Moreover, without the rescue, they say, the chain of auto suppliers could have imploded, possibly even bringing tottering Ford -- the third major Detroit automaker -- with them.

The issue has crystallized a key divide between Republicans and Obama's Democrats ahead of November's presidential elections.

The White House holds up the rescues as a huge success, with a significant amount of the bailout funds already repaid. But Obama's challengers cite it as governmental overreach that has contributed to the huge runup of government debt in the past three years.

The crisis erupted in 2008 as gas prices rocketed to record highs, turning consumers away from Detroit's largely fuel-guzzling products. The financial and housing busts further pushed down sales leaving the US big three short of cash and facing huge operating losses.

Romney, experienced as a private investor in corporate rescues and makeovers, rejected bailouts at the time, publishing a New York Times article that November entitled "Let Detroit Go Bankrupt."

"If General Motors, Ford and Chrysler get the bailout that their chief executives asked for yesterday, you can kiss the American automotive industry goodbye," he wrote.

With a state-led bailout, he said, "the automakers will stay the course -- the suicidal course of declining market shares, insurmountable labor and retiree burdens, technology atrophy, product inferiority and never-ending job losses."

But most economists dismiss Romney's argument that private capital could have done the job, and done it better.

Both GM and Chrysler were ready to enter bankruptcy under Chapter 11 proceedings, which protect firms from creditors while they reorganize their finances.

But they needed billions of dollars in bridging financing to do that, and it was not available, said Gary Burtless of Brookings Institution.

"There was no creditor in the private sector that could step up with the amount of money that Chrysler and General Motors needed if they were to keep on functioning," Burtless told AFP.

"The only outcome if the government didn't step in was that those companies were going to be liquidated."

Steven Rattner, the lead adviser to Obama's auto industry task force in 2009, called Romney's view "utter fantasy."

"Every scrap of private capital had fled to the sidelines," he wrote in Friday's New York Times.

Without the government pumping in loans and capital, he said, GM and Chrysler "would have been forced to cease production, close their doors and lay off virtually all workers once their coffers ran dry."

"Those shutdowns would have reverberated through the entire auto sector, causing innumerable suppliers almost immediately to stop operating too."

Daniel Ikenson of the Cato Institute, a free-market-focused Washington think tank, argues that the industry should have been left to shake itself out.

Other companies would have taken up the slack to supply the US market: if Ford survived, it would have earned more market share; if Toyota came in, it would have employed those laid off from the failed firms.

"The companies didn't enter bankruptcy by themselves, they were escorted to bankruptcy," Ikenson said.

"Both those companies had huge assets," he added. "They could have been sold. Their market share would just have gone to other companies."

The government bailouts, coming after rescues of big banks, were unpopular at the time. The Pew Research Center says that in late 2009 only 37 percent of Americans thought they were good for the economy.

Since then both firms have returned to profit. GM reported a record $7.6 billion annual profit for 2011, and Chrysler turned in a gain of $183 million for the year, reversing a $652 million loss in 2010.

While the government has not yet made back all the money it put into shares of the companies, both are in much better condition, with better cars and greater market shares, and much more competitive looking ahead, said Burtless.

The rescues "insured that the cost structure of General Motors and Chrysler would really shrink, as would those of the auto suppliers."

"They created a much smaller pair of companies, and companies that were much more likely to be profitable. So the outcome was exactly what bankruptcy is supposed to accomplish."

Public sentiment has also turned: Pew's poll this week showed that 56 percent now say the bailouts were good.