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## Obama Brags to Union Workers About Bailout of Big Auto

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March 18, 2016

Before a January visit to the annual Detroit Auto Show, President Barack Obama visited employees at the United Auto Workers' (UAW) General Motors (GM) training facility in Detroit, Michigan, where he praised the 2009 automotive industry bailout.

The Auto Industry Financing Program (AIFP), which was part of Obama's larger 2009 economic bailout plan, gave \$79.69 billion to U.S. car manufacturing companies General Motors and Chrysler Motors, as well as to their respective in-house financing companies. As part of the deal, the U.S. government purchased a majority of shares for each of the companies, and UAW received four times as much equity in General Motors per dollar of debt owed to it than secured bondholders received, which many experts have said is the exact opposite of what usually occurs during standard bankruptcy proceedings.

While the auto industry unions received significant financial support, many private stockholders lost their entire investment.

### **Sunken Costs**

In late 2014, the U.S. Treasury Department announced the official end of the industry bailout and nationalization program, leaving \$10 billion in taxpayer funds unrecovered and in the accounts of U.S. automobile manufacturers GM and Chrysler.

Dan Ikenson, director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies, says GM and Chrysler benefited from an atmosphere rife with panic.

"The day after President Obama was elected, an entity in Michigan called the Center for Automotive Research published a report that said the auto industry is on the brink of collapse and three million jobs are at stake," Ikenson said. "The estimate in that report was predicated on the idea that if GM went under, a bunch of auto part suppliers would go under, which would put

Ford under, which would put more part suppliers under, then Chrysler, and more part suppliers, and then Honda, *etc.* It would ripple through the entire auto industry, and everybody in a job related to producing, selling, and fixing automobiles would be out of a job.”

### **Big Bad Bailouts**

Mark Thornton, a senior fellow at the Mises Institute, says AIFP is an example of politically connected insiders using big government to protect themselves against change.

“I don’t think it was necessary,” Thornton said. “In fact, from an economic view, bailouts are a very bad thing, and restructuring and bankruptcy are a very good thing. That’s what’s supposed to happen in a correction: You disassemble the most inefficient areas of the economy. It’s very similar to the bank bailouts. We should have allowed some kind of restructuring or bankruptcy process with the banks and the automobile companies, so they would have been more efficient and competitive.”

In 2015, Americans purchased about 17.5 million vehicles, up 53.5 percent from 2009 levels, but Thornton says the automobile industry’s revitalization has nothing to do with AIFP.

“Historically, if you saw the automobile industry expanding and doing well, it meant the workforce was doing well,” Thornton said. “It meant there were good jobs available and wage rate increases. However, we’re not really seeing that. The unemployment rate has fallen, but the income of workers and the number of people in the workforce has actually been shrinking.”

### **Divorced from Productivity**

Thornton says the auto industry and the U.S. economy as a whole are being artificially stimulated by government monetary policies.

“Much of the recovery we’ve seen in the last few years is due to the fact that interest rates for automobiles are typically 8 to 10 percent, and today they’re down to about 4 percent,” said Thornton. “Cutting the interest rate on automobiles in more than half is what’s really caused this extra stimulation in auto sales. It has nothing to do with the bailout.”