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## Opinion: The Auto Industry Bailout - Still Debated But Worth Every Penny

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GM and Chrysler marching back and creating jobs. Intangibles gained as well.

 ORIGINAL Posted: May 11, 2011

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Automakers are building cars and re-hiring thousands of workers because the U.S. government kept both companies (GM, Chrysler).

The Government Accountability Office wants the White House to demonstrate, and actually quantify, what benefits U.S. auto-manufacturing communities saw from the 2009 automaker bailouts. If it can't, funding from Congress for the "auto recovery" unit of The Labor Department is in jeopardy.

Congress, said the GAO, should consider not funding the office in future until it measures how cities such as Detroit and Toledo actually benefited from the bailouts of General Motors and [Chrysler Group LLC](#).

The GAO is merely doing its job as watchdog on government spending. Even though the benefits are clear, there are still plenty of pundits and politicians who have doubted the value and propriety, even the constitutionality, of the government bailouts of the two automakers two years ago. Two years in, and they are still complaining. Critics are entitled to their ideology about letting free markets determine the fate of private companies. But the White House and auto companies should not have much trouble defending the wisdom of not letting GM and Chrysler, representing more than a quarter of the U.S. auto industry, collapse into liquidation, which would have created chaos and vast unemployment in the most important manufacturing industry remaining in the U.S.

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Both automakers are here today, building cars, mostly in the Midwest, and re-hiring thousands of workers, because the U.S. government kept both companies, in the midst of the meltdown of financial markets in 2008 and early 2009, from being chopped up piecemeal. The rescue of the two automakers also kept hundreds of [auto parts](#) companies from going bust. The U.S. auto industry is still the spine of the economies of Michigan, Ohio, Indiana, as well as being important to other states including Pennsylvania, Illinois and Kentucky.

In all, the Center for Automotive Research (CAR) in Ann Arbor, Mich., reckons the government's bailouts of the U.S. auto industry spared more than 1.14 million jobs in 2009, and prevented "additional personal income losses" of nearly \$97 billion in 2009 and 2010. Another 314,400 jobs were saved in 2010. The research organization based its conclusions on the potential impact of auto-industry collapse for jobs at U.S. automakers and suppliers, and ripple effects on the economy at large.

The legion of critics of the bailout is quite a gallery: from Presidential hopefuls Rep. Michele Bachmann (R-Minn.) and Mitt Romney (let's see if he sticks to that when he campaigns in Michigan this year) to the more thoughtful, if still stubbornly incorrect, Dan Ikenson, associate director of the libertarian Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.

The opposition to the bailout by politicians, practically all of them Republican, is understandable given that most political debates today are ideological rather than practical. Republicans tend to believe the markets will solve all the ills of the world without government regulations or intervention (The Gulf oil spill is the fault of too much regulation, not carelessness). But let's focus on Ikenson's arguments, which have tended to feed the talking points of the anti-bailout crowd. His beef, in short, is that the proper free-market thing to do would have been to let GM atrophy, go into bankruptcy in a normal fashion rather than the tax-payer assisted version, and the other automakers would have picked up GM's lost business and market share. And all would be well with the world without costing the taxpayer a cent.

The problem with arguing on ideological terms is that it does not often take into account what is really happening on the ground to real people. The auto industry is a complex web of companies and suppliers with millions of livelihoods dependent on the flow of cars and trucks down assembly lines. The best way to lay out why the bailout was good for the U.S., and its economy, is step-by step.

1. There was no bankruptcy "reorganization" of GM and Chrysler without the U.S. government. Banks were in such dire shape that none were stepping up to provide what is known as "debtor-in-possession" financing for the reorganization of the companies. Without that, bankruptcy would have instead been a prolonged (it could still be going on) liquidation of GM and Chrysler assets to try and pay off bondholders and other debtors. Brands, plants, machinery, real estate, etc. would have been sold off for nickels on the dollar to other automakers and other investors looking for bargains.

2. Ikenson bemoans the subvention of the "rule of law," and property rights of "preferred bondholders" who were forced to take pennies on the dollar based on what they paid for, say, GM's bonds (while some individual bondholders paid 100 cents on the dollar, most bondholders were investors who bought bonds at fire sale prices to begin with). Investors make bets when they buy stocks or bonds. The bet on GM and Chrysler bonds didn't pay off for them. If the Obama Administration went outside the law, then why did a Federal judge bless it in the bankruptcy procedure? And where are the viable lawsuits challenging the legality of the proceedings?

3. People who are on their third, fourth or fifth [Honda](#) or [BMW](#) had, and still have, very little care about whether GM or Chrysler survive. Their liquidation wasn't going to impact their lives, so they resented having tax dollars committed to the cause. Likewise, elected officials such as Alabama Senator Richard Shelby, who can't count a Detroit auto plant among his constituents, has been against the bailout. But Shelby, against government assistance for private companies in general, has been nonetheless supportive of hundreds of millions of dollars in taxpayer subsidies going to Mercedes-Benz, [Hyundai](#), [Kia](#) and Honda and parts companies to attract those companies' plants to Alabama. The President can't afford to be so parochial in his thinking, and actually has to make calls that impact the entire country, not just a single state or driveway.

4. Like it or not, the auto industry is critical to the U.S. economy. CAR estimated the loss of 3 million jobs over three years if GM and Chrysler were allowed to go belly-up, with only about 240,000 jobs being at the auto manufacturers themselves. The rest were the attendant industries that interconnect with autos. The loss of personal income by the end of 2011 would have been \$400 billion by the end of 2011, and the costs to the U.S. Treasury would have been \$156 billion, according to CAR.

5. Symbolism and national pride and prestige matter. They are hard to measure in dollars, but it doesn't mean they aren't important. The U.S. is a car culture, not one that moves about via mass transit, unless you happen to live in the Boston-to-Washington corridor. And even the train riders in those markets all have one, two or three cars per household. The U.S. is the leading light of the free world. The country would have been embarrassed on a global scale had it allowed the shenanigans of irresponsible bankers and politicians to bring down an industry as iconic on the world stage as the U.S. auto industry. If GM and Chrysler were allowed to simply dissolve, we would, yes, have an even stronger [Ford](#) Motor Co. provided the parts companies that serve Ford, as well as GM and Chrysler, hadn't gone bust from the loss of business and revenue and damaged Ford's business in the process. As it was, Italian automaker [Fiat](#) surfaced as the only option for Chrysler and its 9% of the auto market. Kissing off GM's roughly 17% of the U.S. auto industry to foreign-owned companies was unnecessary and hardly in the U.S. national or economic interests.

6. No question that GM and Chrysler made some lousy cars in the past. You know what? [Toyota](#), Honda, Hyundai and [Nissan](#) have made some poor vehicles too. GM and Chrysler have had some awful management at the top. But, ditto Toyota and [Mercedes](#). But a backdrop to poor leadership in Detroit, and the massive debt the companies accumulated, has been that a generation of managers were trained to run these companies to generate the maximum amount of cash-flow to cover exploding healthcare and pension expenses, rather than managing for profit. This is not how companies are managed in Japan and Germany. And be assured that the governments of those countries would not allow Toyota or Daimler to dissolve because they have actual industrial policies that would not permit it.

7. Vital to understanding why Detroit automakers hit the wall in 2008 when sales plummeted overnight is appreciating (which almost no elected official or ideologue does) that GM, Ford and Chrysler have long not been operating on a level playing field against Japanese, Korean and German automakers. How so? Japan's Finance Ministry for two decades kept the yen artificially low relative to the U.S. dollar; meaning profits per vehicle sold in the U.S. were pumped up. Too, German, Japanese and Korean governments all have universal healthcare (and better health statistics with their systems than the U.S. has). So, while businesses and individuals in those countries are taxed to support their healthcare and pension systems, they have not seen the unpredictable and double-digit annual cost increases that U.S. companies have experienced. The U.S. has neither a healthcare policy, nor an industrial policy, let alone ones designed to help make American companies globally competitive. Germany, Japan and Korea have long-term policies for both. Ideologues can vilify universal healthcare all they want. But the fact that the U.S. doesn't have it is arguably the biggest obstacle to U.S. companies being truly globally competitive.

8. Unions did not sink GM and Chrysler. At least not directly. Much has been said and written about the United Auto Workers sapping Detroit's competitiveness. Wages were \$5 to \$8 an hour more than what Toyota and Honda were paying their workers in Ohio and Alabama, but the dramatic difference came when healthcare and pension costs were factored into wage numbers. While it's true that labor unions have garnered some ridiculous benefits and demand idiotic anti-competitive work rules over the years, the heart of the UAW burden on the companies has been its healthcare benefits. But who can blame the UAW for negotiating "[Cadillac](#)" benefits, more generous than most white-collar workers get. As far back as 1990, the union saw that healthcare costs were rising faster than wages, and so they cut deal after deal to get the best healthcare, while often taking no or small wage gains. If Congress was going to do nothing to curb exploding healthcare costs, the unions took matters into their own hands.

9. By the time the U.S. government sells its stake in GM, the real cost to taxpayer is estimated to be about \$10 billion or less. If the cost of welfare, food stamps and the like for otherwise unemployed workers is factored in, it is far less. But even the \$10 billion is about what the government spends for five to six weeks of warfare in Afghanistan. It's about half what the government spends on agricultural subsidies, and Republican politicians are usually pretty quiet about cutting those since they are popular in red rural states like Iowa, Idaho and Kansas.

10. Opponents of the bailout are not entirely without standing to criticize. If GM and Chrysler had been allowed to crash and burn, it is possible that Ford would have been okay

Was bailing out GM and Chrysler the right thing to do?

Yes

No

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despite the disruption in their supply chain that would have resulted from parts companies going bust without GM and Chrysler's business. It is also possible that Toyota, Nissan, Hyundai and Honda would have neatly scooped up some of the businesses, such as GM and [Dodge's pickup truck](#) businesses, while letting other marginal businesses like Chrysler passenger cars turn to dust. [Chevrolet](#) could now be in the hands of private equity firms, like the one Mitt Romney has helped run. But it is also true that Chrysler was on its way to ruin in the hands of a private equity firm, and the vaunted German automaker Daimler before that. Toyota and Honda have sworn off major acquisitions because of how they poison company culture in the auto business. So, the idea that the free markets would have simply succeeded where GM didn't is pretty simple-minded.

#### Bottom Line

I can't help thinking that most of the opposition to the bailout of the GM and Chrysler is held mostly by people who had a bad experience with a 1990s era Oldsmobile or Chrysler and turned to a more reliable Toyota or Honda. Detroit quality is much better today. The gap between Ford and GM products with Toyota and Honda is very small, and the gap itself depends on how one measures quality in the first place. But many can't get past their dated experiences with Detroit product. Just because there isn't a Detroit vehicle in their driveway, or a Detroit plant in their state doesn't mean that a strong GM, Ford and Chrysler isn't good for the national economy. They are.

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