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James Carville says Barack Obama 'saved the auto industry'

By: Jon Greenberg - November 12th, 2013

Democratic strategist James Carville defended President Barack Obama on MSNBC's "Morning Joe" on Nov. 11, 2013, claiming Obama saved the auto industry.

On Monday's *Morning Joe*, conservative pundit Bill Kristol snickered as he listened to a panel suggest that the problems facing President Barack Obama have to do with his status as a lame-duck status.

"You're being deep, historical … (looking at) systemic things," Kristol said. "Obamacare is a total disaster. If Obamacare were working well, and we were respected around the world, and people had the sense that the Iranians were in retreat, and our allies had confidence in us, don't you think Obama's numbers would be 10 points higher?

"I don't think it's due to history, this is due to the fact that his actual policies are failing. Americans are losing their health insurance, and the Iranians are keeping their nuclear program."

To offer the counter argument, Democratic strategist James Carville jumped in.

"Can I make a point here?" Carville asked, before making several.

In general, Carville argued that yes the health care website is broken, and if it's not fixed soon -- someone will have to answer for that.

But he also pointed to the president's successes, including this old cherry: "He saved the auto industry."

Did President Obama really save American auto makers? This is more a matter of opinion, and not an item for the Truth-O-Meter, but we can still shine some light on the question as our colleagues at PolitiFact first did last year.

In broad strokes, the answer is yes, but with some help from the other party and with one huge unknown -- no one can say what would have happened without massive government intervention. We spoke with a number of analysts and read many independent reports. There is no question that General Motors and Chrysler are profitable today. But so is Ford, a company that received no financial aid at all. The jobs have returned -- although not nearly at the level they were before the industry began its steep decline in 2007.

Without a doubt, the American auto industry emerged smaller and more competitive.

In the words of the bipartisan Congressional Oversight Panel that assessed the impact of the government's efforts: "The industry's improved efficiency has allowed automakers to become more flexible and better able to meet changing consumer demands, while still remaining profitable."

Obama, however, cannot claim full credit for this outcome. According to several experts, he needs to share it with his predecessor, President George W. Bush. Dr. James Rubenstein at Miami University co-wrote a post-bankruptcy assessment for the Federal Reserve Bank of Chicago. Rubenstein said no one should overlook the importance of Bush's decision to use $17.6 billion in TARP money in December 2008 to keep General Motors and Chrysler afloat.

"The Bush Administration provided short-term bridge loans," Rubenstein said. "That allowed the Obama Administration to take a couple of months to assess the situation."

Aaron Bragman, the lead American automotive analyst for the financial forecasting group IHS Automotive, echoed the point. "The Bush administration is the one that actually acted to save them from an uncontrolled bankruptcy and shutdown," Bragman said. "The Obama administration's role was to fix them."

Layoffs in 2008

In 2008, the entire auto industry was in very bad shape. Layoffs at auto plants and among auto parts suppliers were on track to reach 250,000 workers. Gasoline prices were up and buying power was down. General Motors was virtually out of cash to pay its bills and Chrysler was not far behind. In November 2008, the *New York Times* ran the headline "GM teetering on bankruptcy, pleads for federal bailout".

The Center for Automotive Research, an independent research group that gets some funding from automakers, predicted harsh outcomes if GM and Chrysler went belly up. Beyond the immediate jobs lost, there would be a partial collapse of the supplier industry that would lead to a 50 percent drop in production at Ford and the American-based foreign car plants. Imports would replace 70 percent of the lost GM and Chrysler production, the group predicted.

When Obama took office, he created a task force with a sweeping mandate to determine the fate of GM and Chrysler. The companies' first proposals to the task force included downsizing, but the task force wanted deeper changes. In March 2009, Obama rejected those plans and said if the firms wanted federal money, they had to go through bankruptcy. That happened quickly. The car companies filed for bankruptcy in June and emerged in July.

Between 2008 and 2010, carmakers closed or scheduled the closure of 16 plants and cut their ties with about 2,500 dealerships. Stockholders were wiped out and creditors such as banks and pension funds wrote off about two-thirds of the value of their claims. The companies shed their entire obligation to pay for the health care of retired autoworkers and that burden shifted to an independent trust fund in which the United Auto Workers union appoints five out of 11 board members.

Under new ownership

What emerged was a smaller American auto industry with a very different set of owners.

The Italian car company Fiat became the majority stockholder of Chrysler. The second largest owner of Chrysler now is that retiree trust fund. For GM, the U.S. government now owns about 32 percent of the company. Private shareholders account for about 35 percent. The retiree trust fund owns about 10 percent.

The union gave up the right to strike through 2015 and ended automatic pay raises. Back in 2007, it had agreed to a two-tiered wage scale that allowed the companies to hire new workers at much lower pay. Between the new wage rates and the savings from taking over retiree health costs, labor costs fell by about a third and are now on par with those of the foreign carmakers.

The entire deal was financed with about $80 billion in taxpayer money. That included a special $5 billion set aside to keep cash flowing to car part suppliers when they found that their normal lines of credit had vanished.

The turnaround

Today, total employment for carmakers and parts suppliers is up about 200,000 from 2009. In 2011, sales rose 10 percent for GM, 13 percent for Ford and 14 percent for Chrysler.

"Both Chrysler and General Motors are not just profitable," Bragman told us a year ago. "They are significantly profitable, earning more now than they have in years."

The benefits have not flowed simply to GM and Chrysler. Ford CEO Alan Mulally said the bailouts were the right medicine for his company as well.

"If GM and Chrysler would've gone into free-fall," Mulally said, "they could've taken the entire supply base into free-fall also, and taken the U.S. from a recession into a depression."

There is no guarantee that these gains are permanent. The auto industry is on firmer ground because it can sell far fewer cars than it once did and still be profitable. However, making the cars and trucks that people want at the right price is a moving target.

Still, the present success leaves critics asking whether it came at too high a price. The Treasury Department estimated that about $23 billion will never be repaid. For James Sherk, an analyst at the conservative Heritage Foundation, much of that is due to "incredibly generous treatment of the unions." Sherk told PolitiFact in 2012 that the union’s retiree health benefit fund got about $21 billion more than it deserved compared to other creditors.

Critics like Mitt Romney argued during the 2012 election that the bailout was flawed by "crony capitalism." The union counters that the trust fund does not belong to the union and the fund took on the substantial risk of providing healthcare for retirees for all the decades to come. According to the Center for Automotive Research, that shift alone accounted for two-thirds of the labor savings that have made the carmakers competitive.

At the libertarian Cato Institute, Dan Ikenson says no one can know for sure, but he thinks disaster would not have occurred if the companies had been allowed to go through a normal bankruptcy.

"I suspect some assets of both companies would have been sold off to other auto producers," Ikenson said. "And some assets and brands would have remained under the GM and Chrysler names."

A key question for advocates of a conventional bankruptcy is whether private lenders would have come forward to finance any such deal. The view of most analysts is that the private money would not have been there.

The Economist, one of the bastions of free-market thinking, came around to that view. Originally, it favored no government intervention. In April 2010, it offered an apology to Obama.

As we said in the beginning, it is impossible to know if the American auto industry would have fared better without government money, without government ownership, and without strong government intervention. Most likely, that debate would be more robust if the industry were not doing well.

But for the moment, it is. The massive loss of jobs and the disruption to the network of auto parts suppliers did not happen. The shock that might have hit all car makers and the overall economy is not staring lawmakers in the face. Given the tangible reality of today, the view among most analysts is that Bush kept the carmakers afloat long enough for Obama to put them on solid footing moving forward. If that matches the definition of a rescue, then both presidents saved the auto industry.