

## Why is Obama bragging about the auto bailouts?

*By Jennifer Rubin*

You can understand the pinch in which the Obama reelection campaign finds itself. Unemployment is high, the debt is huge, the economy has slowed to a crawl and our relationship with Israel is the worst it has been in decades (maybe, ever). Scraping the bottom of the barrel, the Obama team has [decided to brag](#) about the car company bailouts. No, honest. The [National Journal reported](#) last week:

Surrogates for President Obama took aim Tuesday at several of his potential 2012 rivals for opposing the auto industry bailout, making clear that they plan on making the issue central to the debate in the battleground states of Michigan and Ohio.

The pointed criticism of Mitt Romney, Tim Pawlenty, Newt Gingrich, and Jon Huntsman came as Chrysler paid more than \$5.8 billion of the \$10.5 billion they received from the U.S. government -- and as President Obama issued a statement that claimed vindication for one of his less popular moves.

“Supporting the American auto industry required making some tough decisions, but I was not willing to walk away from the workers at Chrysler and the communities that rely on this iconic American company,” Obama said in a statement. “ I said if Chrysler and all its stakeholders were willing to take the difficult steps necessary to become more competitive, America would stand by them. And we did.”

And the [head of the DNC](#) is banging the drum. (“If it were up to the candidates for president on the Republican side, we would be driving foreign cars; they would have let the auto industry in America go down the tubes.”) Too bad she drives an Infiniti.

But is car company welfare something the president should be touting?

Despite puffery by the Democrats, the taxpayers are still out billions. Let's look at GM. Last year, the company said it had paid back the taxpayers. But [Reason magazine explained](#) the GM chief executive Ed Whitacre wasn't giving the taxpayers the full picture:

Uncle Sam gave GM \$49.5 billion last summer in aid to finance its bankruptcy. (If it hadn't, the company, which couldn't raise this kind of money from private lenders, would have been forced into liquidation, its assets sold for scrap.) So when Whitacre publishes a column [in the Wall Street Journal] with the headline, “The GM Bailout: Paid Back in Full,” most ordinary mortals unfamiliar with

bailout minutia would assume that he is alluding to the entire \$49.5 billion. That, however, is far from the case.

Because a loan of such a huge amount would have been politically controversial, the Obama administration handed GM only \$6.7 billion as a pure loan. (It asked for only a 7 percent interest rate — a very sweet deal considering that GM bonds at that time were trading below junk level.) The vast bulk of the bailout money was transferred to GM through the purchase of 60.8 percent equity stake in the company — arguably an even worse deal for taxpayers than the loan, given that the equity position requires them to bear the risk of the investment without any guaranteed return. (The Canadian government likewise gave GM \$1.4 billion as a pure loan, and another \$8.1 billion for an 11.7 percent equity stake. The U.S. and Canadian government together own 72.5 percent of the company.)

But when Whitacre says GM has paid back the bailout money in full, he means not the entire \$49.5 billion — the loan and the equity. In fact, he avoids all mention of that figure in his column. He means only the \$6.7 billion loan amount.

Likewise, last week Chrysler announced it had “paid off” its \$7.6 billion handout from the government. But [Conn Carroll](#) at the Washington Examiner reminds us:

American taxpayers have already spent more than \$13 billion bailing out Chrysler. The Obama administration already forgave more than \$4 billion of that debt when the company filed for bankruptcy in 2009. Taxpayers are never getting that money back. But how is Chrysler now paying off the rest of the \$7.6 billion they owe the Treasury Department?

The Obama administration’s bailout agreement with Fiat gave the Italian car company a “Incremental Call Option” that allows it to buy up to 16% of Chrysler stock at a reduced price. But in order to exercise the option, Fiat had to first pay back at least \$3.5 billion of its loan to the Treasury Department. But Fiat was having trouble getting private banks to lend it the money. Enter Obama Energy Secretary Steven Chu who has signaled that he will approve a fuel -efficient vehicle loan to Chrysler for ... wait for it ... \$3.5 billion.

But aside from the outstanding money, there are good reasons (substantive and political) why Republicans might be more than delighted to make the car bailouts a campaign issue.

[Dan Ikenson](#), associate director of trade policy studies at the Cato Institute e-mailed me over the weekend. "In President Obama's mind, this week's news that Chrysler paid back its outstanding loans to the U.S. Treasury affirms his title: 'Savior of the Auto Industry.' In reality, the president deserves credit for choosing to insulate two companies (and the UAW) from the consequences of their decisions." Indeed, had GM and Chrysler gone through the normal bankruptcy process, the UAW would have had to make more serious adjustments in its contract, thereby producing more competitive companies that won't (when they burn through the taxpayers' money) require more help in the future. Ikenson continued:

Thus, any verdict on the outcome of the auto industry intervention must take into account, among other things, the billions of dollars in property confiscated from the auto companies' debt-holders; the higher risk premium built into U.S. corporate debt, as a result; the costs of denying Ford and the other more successful auto producers the spoils of competition (including additional market share and access to the resources misallocated at Chrysler and GM); the costs of rewarding irresponsible actors, like the UAW, by insulating them from the outcomes of what should have been an apolitical bankruptcy proceeding; the effects of GM's nationalization on production, investment, and public policy decisions; the diminution of U.S. moral authority to counsel foreign governments against market interventions that can adversely affect U.S. businesses competing abroad, and; the corrosive impact on America's institutions of the illegal diversion of TARP funds to achieve politically desirable outcomes.

Moreover, there were some very sympathetic losers in the process. The [Wall Street Journal](#) reported last week:

Among the creditors who suffered most, car-accident victims represent a distinct mold. Unlike banks and bondholders, this group didn't choose to extend credit to the auto makers. As consumers, they became creditors only after suffering injuries in vehicles they purchased.

Those who were never fully compensated for injuries are the sort of innocent "little guys" that politicians are supposed to keep in mind; however, it never dawned on the officials micromanaging a large chunk of the car industry. "Leaving behind product-liability claims didn't initially raise red flags for the president's auto task force, said people familiar with the negotiations. In part, that was because such methods had been used in other bankruptcy sales. But also, setting aside more money for accident victims, these people said, could have prompted complaints from others who felt shortchanged by the restructurings, at a time when

government bailouts were unpopular.” After a hue and cry from state attorneys general, the companies settled with some of the bailout casualties. Others still haven’t seen a dime. Put differently, the Obama team made certain the UAW suffered very little and paid no heed to the interests of those who never negotiated a labor contract, purchased a bond or bought stock.

As a political matter, recall that the Tea Party movement took flight over another Obama scheme (a homeowner buyout). The notion that taxpayers should bear the brunt of others’ errors has not sat well with the American public. Yes, there may be some auto workers in the Rust Belt who owe their continued lavish benefit packages to Obama and the UAW, but there are millions around the country who find the bailout mentality distasteful. Explaining to an out-of-work secretary, who never enjoyed a salary or benefits approaching the UAW compensation packages, that it was a good thing Obama saved the car companies (but not her employer) sounds like an uphill struggle.