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Untold Details About the Auto Bailout

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The central economic selling point of the Obama reelection team is that the president saved the U.S. auto industry. That such a contestable proposition serves as the administration's economic headline does more to underscore its abysmal record than to inspire confidence in its continued economic stewardship.

The administration didn't save the auto industry. The stronger case is that it damaged the auto industry along with several important institutions vital to capitalism's proper functioning. However, it should be granted that President Obama's commandeering of GM's and Chrysler's bankruptcy process saved jobs at those companies and elsewhere in their supply chains (and provided an opportunity to dole out spoils for politically favored interests). How many jobs were saved is impossible to determine because it's not clear what would have happened to GM's and Chrysler's assets had a normal, non-political bankruptcy process been allowed to unfold.

Yes, jobs were saved for the time being in Michigan, Ohio, and a few other industrial states in the Midwest. That is what can be seen. And politicians are hardwired to tout the benefits—and only the benefits—of their policies.

But an informed citizenry should insist on a proper accounting of the costs of those policies, as well—not just the losses put on the taxpayers' tab (right now taxpayers' "investment" in GM is $27 billion, but the public's 500 million shares of GM stock is worth only $10 billion), but the unseen costs.

Sure some jobs were preserved in some locations, but what about the less visible consequences and ripple effects? What isn't so easily seen, but is every bit as important to assessing the auto interventions is the effects on the other auto companies and their workers (i.e., the majority of the U.S. auto industry). Will the public remember or know enough to attribute layoffs of American workers at Ford or Toyota or Kia during the next downturn in auto demand to the fact that a necessary reckoning on the supply side was precluded by the interventions of 2009?

The auto industry is plagued with overcapacity, which is a problem that demands a thinning of the herd. GM and Chrysler, through their own relatively poor decisions with respect to labor relations, product offerings, and quality management were failing by the market's judgment and were the rightful candidates to be thinned. But that process was forestalled. In 2013, auto workers in Alabama, Tennessee, South Carolina, Indiana, and even Michigan and Ohio may lose their jobs because GM and Chrysler workers' jobs were spared in 2009.

That is only one of the many unseen or under-rug-swept costs of the auto bailouts. The following passage from congressional testimony I gave last year identifies several others:

It is galling to hear administration officials characterize the auto bailouts as "successful." The word should be off-limits when describing this unfortunate chapter in U.S. economic history. At most, bailout proponents and apologists might respectfully argue — and still be wrong, however — that the bailouts were necessary evils undertaken to avert greater calamity.

But calling the bailouts "successful" is to whitewash the diversion of funds from the Troubled Assets Relief Program by two administrations for purposes unauthorized by Congress; the looting and redistribution of claims against GM's and Chrysler's assets from shareholders and debt-holders to pensioners; the use of questionable tactics to bully stakeholders into accepting terms to facilitate politically desirable outcomes; the unprecedented encroachment by the executive branch into the finest details of the bankruptcy process to orchestrate what bankruptcy law experts describe as "Sham" sales of Old Chrysler to New Chrysler and Old GM to New GM; the costs of denying Ford and the other more deserving automakers the spoils of competition; the costs of insulating irresponsible actors, such as the United Autoworkers, from the outcomes of an apolitical bankruptcy proceeding; the diminution of U.S. moral authority to counsel foreign governments against similar market interventions; and the lingering uncertainty about the direction of policy under the current administration that pervades the business environment to this very day.

In addition to the above, there is the fact that taxpayers are still short tens of billions of dollars on account of the GM bailout without serious prospects for ever being made whole. Thus, acceptance of the administration's pronouncement of auto bailout success demands profound gullibility or willful ignorance. Sure, GM has experienced recent profits and Chrysler has repaid much of its debt to the Treasury. But if proper judgment is to be passed, then all of the bailout's costs and benefits must be considered. Otherwise, calling the bailout a success is like applauding the recovery of a drunken driver after an accident, while ignoring the condition of the family he severely maimed.

Here is the entirety of that testimony, and few other articles, opeds, and blog posts on the topic.

Details of the Auto Bailout You Won't Hear in Charlotte is a post from Cato @ Liberty - Cato Institute Blog