

Were We Going to Run Out of Cars

✘ It is obvious from the Democratic convention this week that the Obama campaign believes that their intervention in the failure of GM and Chrysler was a positive. They seem to be making the case that without the administration making a deal while ignoring the rules of bankruptcy law, GM and Chrysler wouldn't exist now. All kinds of companies go in and out of bankruptcy without any interruption in service. Just look at the airlines, at any point in time there is an airline reorganizing and coming out of Chapter 11. American Airlines is involved in it right now. More importantly these orderly bankruptcies are done without taxpayer money. The issue isn't one of saving jobs, it is the use of tax dollars and changing the rules everyone else must follow.

A recent report to Congress from the administration has pegged the GM bailout at \$25 Billion. If you add this to the bailout of Chrysler, and Ally financial (the old GMAC), the total comes in around \$38 billion. Even if liquidation was a possibility, and the government wanted to help those dislocated we could have gotten away much cheaper. At 100,000 jobs (the true number at these companies) we could have closed the doors and given every employee a \$100 grand stipend while they look for work, and saved \$28 billion. We then wouldn't be stuck with the possible risk of having to bail them out again when they prove that they can't seem to make cars that people want to buy while maintaining enough profit to stay in business. In fact this was Chrysler's second time (1979 federal loan guarantee) at the taxpayer trough. At least this time they got sold off to Fiat so the next time they screw up perhaps it will be Italy's problem.

It is a misnomer that this intervention is called the auto bailout. Ford, Nissan, Honda, Toyota, BMW, Mercedes & VW did

not need any government money. It is also a mistake to compare this to the financial industry bailout. There certainly were flaws there as well, but at least you could say that it was systemic problem. In other words, most banks were affected by the downturn, which cannot be said for the automakers. Lost in all of the analysis of this bailout was the most important question that was never asked. Was there a risk we were going to run out of cars? Is there any doubt that if GM or Chrysler had actually been wiped out that the other carmakers would have stepped up production to fill the void? The market demands a certain number of cars. These would likely have been produced in American plants since they all have plants here. Perhaps this would have led to no net job losses.

We have two car makers who have proven that they cannot compete when times get tough. The current administration believes that intervening in the market, playing favorites, changing the laws, and spending a fortune to save these failed companies is a good idea. If a company can no longer provide for their customers, the market forces them to deal with that reality. Intervening delays the inevitable, confuses others as to the rules they must follow, doesn't save net jobs, and burdens taxpayers unnecessarily. The fact that this act can be used as a positive for the President running for reelection is a testament to the lack of economic understanding in the electorate.