

Tom Walsh: What's auto bailout verdict? Time will tell

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American flags fly outside the GM Renaissance Center in Detroit on Tuesday, Aug. 17, 2010. / Patricia Beck/Detroit Free Press



By Tom Walsh
Detroit Free Press Business Writer

Think of this as the beginning of the end of the Great Auto Industry Bailout of 2008-09.

As such, Wednesday's U.S. Treasury announcement that it will soon dispose of its remaining 500 million shares of General Motors stock is an occasion for reflection on the outcomes of the bailout so far, and future implications for the auto industry and U.S. policy.

Let's review from several perspectives:

- **Bailout as tourniquet:** A crisis intervention to stop the bleeding and panic over an economy in free fall.
- **Bailout as industrial makeover tool:** A way to impose sweeping changes on uncompetitive companies or industries.
- **Bailout as investment:** Does the payoff justify the risk? What's a reasonable return?

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Chrysler from collapse via massive cash infusion was a major factor in stabilizing the U.S. economy at a time of global panic. It saved tens of thousands of jobs at the two companies and prevented the collapse of the industry's supply base and further damage to Ford and other automakers.

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This was a highly unusual direct intrusion of government into private industry and markets, but not unprecedented. During World War II, Americans accepted rationing, wage and price controls and other restrictions on commerce during a time of crisis.

Using the bailouts as a tool to overhaul poorly run, uncompetitive private companies -- as the Obama administration did by marching GM and Chrysler through bankruptcy restructurings -- was very controversial, and remains so.

It was also remarkably successful, as measured strictly by the stunning financial recoveries of the two automakers.

GM had lost \$82 billion in 3 1/2 years before its 2009 bankruptcy; it's now minting \$2 billion per quarter in profits, nearly all in North America.

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Chrysler was gasping for breath, its future product pipeline empty, when President Barack Obama's auto task force handed it over from Cerberus to Fiat and CEO Sergio Marchionne. Now, it's profitable and has posted year-over-year sales gains for 33 consecutive months.

The good fortune of New GM and New Chrysler-Fiat, however, has come at the expense of many others. Former GM shareholders and Chrysler bondholders were wiped out. Hundreds of car dealers were tossed aside. Other vehicle makers grumble that two major competitors got their balance sheets wiped clean and a mountain of debts forgiven.

The fairness of all that will be debated for decades to come.

As far as return on investment, the final tally on GM will depend on transaction prices for the 300 million U.S. shares that will remain after GM buys back 200 million shares -- but it looks like only about 75% of taxpayer dollars spent on saving GM will be recouped. In the case of insurance giant AIG, Uncle Sam made a

profit of almost 23%. Suffice to say that nobody should make risky investments like these based on the calculus of pure financial return.

Lastly, what's the verdict on the politics of bailouts, several years after the fact?

Clearly, the nation demonstrated no widespread outpouring of love or sympathy for GM and Chrysler -- certainly not in the way that we respond to disaster victims from hurricanes or tornadoes.

Obama may well have gained some re-election votes in Michigan and Ohio for his handling of the auto bailouts.

It's still a hard sell, though, to convince many Americans that a 25% to 40% loss on their nearly \$50-billion bailout of GM -- a corporation that was vulnerable, in part, because of its self-inflicted wounds -- was money well spent.

In the end, a final verdict on the Great Auto Industry Bailout depends largely on the unknowable.

What really would have happened if the Treasury had only pumped bailout cash into banks and not the auto industry? Would Detroit have lost two auto companies, or maybe all three? Would the U.S. have careened into another Great Depression?

We will never know.

What we do know is that the American people remain gravely skeptical of massive government intrusion into private industry, and that any such actions in the future must be rare and short-lived.

Contact Tom Walsh: 313-223-4430 or twalsh@freepress.com

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