Uncle Sam Grabs the Wheel

Earlier in December, continued the wire service, the government agreed "to rescue GM and Chrysler LLC with up to $17.4 billion in loans to stave off a collapse that would have cost hundreds of thousands of jobs and dealt a severe blow to an economy already in recession.... President George W. Bush said at the time that it would be irresponsible to let the automakers die. The White House moved on its own after Republicans in the Democratic-controlled Congress blocked a deal to provide emergency funds."

ITEM: *In an interview with* Business Week *for December 10, Representative Barney Frank (D-Mass.), chairman of the House Financial Services Committee, was asked about the proposal to name a federal "car czar" for the auto industry, an idea supported by Frank. "How," asked the interviewer, "do you make sure the government doesn't meddle too deeply in day-to-day operations and bring politics — like a push for green cars — into the equation?" To which Frank responded: "Oh, well, a push for green cars is very much a part of what we're involved in. We don't think that's politics."*

CORRECTION: Statists have long wanted to be able to force Americans to buy small, light, and ecologically green cars, whether they wished to or not. Now that GM is being transformed into "Government Motors," it is more in their power to do so. This is certainly "politics." After all, it is being done with our money. There will be more to come as the government keeps setting precedents for bailouts.

Elsewhere in the *Business Week* interview, when asked if GM should acquire Chrysler, Frank feigns modesty and says, "I'm not competent to say." Yet, he and many of his big-government cronies feel skilled enough to substitute for the decisions of millions by telling carmakers what to build and consumers what to buy.

The Massachusetts congressman, who was neck-deep in promoting the policies and regulations that spawned the housing and credit bubble that led to much of our current economic crisis, also has tried to shift the blame for those problems on "right-wing Republicans who took the position that regulation was always bad, the market was self-correcting, and you should not have any restrictions on the free flow of capital." (It is bizarre to claim that the blundering of the officially "government-sponsored enterprises" Fannie Mae and Freddie Mac, underwritten by their congressional supporters with tax dollars, was a failure of the free market. For details see, for example, "Correction, Please!" for October 13, 2008.)

A spokesman for the group called 40MPG.org insists that the government should be serving a consumer market that doesn't exist: "Congress should insist that every penny of the $25 billion in new loan guarantees that Detroit is seeking be targeted to building the cars of tomorrow (hybrids, clean diesels and other highly fuel-efficient vehicles), not the gas-guzzling dinosaurs of yesterday."

In promoting the auto bailout, others fall back on specious reasoning, arguing that the fleecing of the taxpayers is necessary because this industry is "too big to fail," and maintain that to declare bankruptcy means virtual death. In fact, bankruptcy is a way for operations to be streamlined and costs cut under court supervision, not the whims of a green-leaning politician or bureaucrat.

Economist Walter Williams explains:

> What happens when a company goes bankrupt? One thing that does not happen is their productive assets go poof and disappear into thin air. In other words, if GM goes bankrupt, the assembly lines, robots, buildings and other tools don't evaporate. What bankruptcy means is the title to those assets change. People who think they can manage those assets better purchase them.

Chapter 11 of the U.S. Bankruptcy Code, where the control of its business operations are subject to the oversight and jurisdiction of the court, gives companies a chance to reorganize. The court can permit complete or partial relief from the company's debts and its labor union contracts.

A large part of the problem is the Big Three's cozy relationship with the United Auto Workers union (UAW). GM has a $73 hourly wage cost including benefits and overtime. Toyota has five major assembly plants in the U.S. Its hourly wage cost plus benefits is $48. It doesn't take rocket science to figure out which company will be at a competitive disadvantage. Then there's the "jobs bank" feature of the UAW contract where workers who are laid off workers get 95 percent of their base pay and all their benefits. Right now there's a two-year limit, but in the past workers could stay in the "jobs bank" forever unless they turned down two job offers within 50 miles of their factory. At one time job bank membership exceeded 7,000 "workers." GM, Ford and Chrysler face other problems that range from poor corporate management and marketing, not to mention costly government regulations.

There is plenty to reorganize without putting the government in the driver's seat. The Big Three's management and labor structure are based on a model from decades ago; legacy auto costs (cradle-to-grave benefits for unionized workers) are so high the companies are losing money when they sell cars; and the car dealership network of the Big Three is much larger and less efficient than their competitors'. The bailout doesn't fix these problems; it subsidizes them.

Meanwhile, the too-big-to-fail argument doesn't hold water either. As columnist Mark Steyn has written:

> General Motors now has a market valuation about a third of Bed, Bath and Beyond, and no one says your Swash 700 Elongated Biscuit Toilet Seat Bidet is too big to fail. GM has a market capitalization of just over $2 billion. For purposes of comparison, Toyota's market cap is $100 billion and change (the change being bigger than the whole of GM). General Motors, like the other two geezers of the Old Three, is a vast retirement home with a small loss-making auto subsidiary. The UAW is AARP in an Edsel: It has 3 times as many retirees and widows as "workers" (I use the term loosely). GM has 96,000 employees but provides health benefits to a million people.

How do you make that math add up? Not by selling cars: Honda and Nissan make a pre-tax operating profit per vehicle of around $1,600; Ford, Chrysler and GM make a loss of between $500 and $1,500. That's to say, they lose money on every vehicle they sell.

Yet, we have been told that bankruptcies would mean immediate ruination and liquidation, three million lost jobs, and a slashing of personal income in this country of some $150 million. These claims don't stand up to scrutiny.

The bankruptcy claim is based, notes National Review Online, "on surveys purporting to show that 80 percent of Americans would not buy a car from a bankrupt auto company, because that company might not be around to service the warranty or to provide parts." The flawed claims about jobs and income, points out NRO, "come from a Center for Automotive Research study on the economic impact of letting the Big Three fail. The study assumes a major wave of supplier bankruptcies and therefore that 'not only does domestic production by the Detroit companies fall to zero in the first year, but that domestic production (in the U.S.) by the international producers also falls to zero.' "

Assuming that all automobile production in the United States "will fall to zero is plainly preposterous," says NRO. "The Big Three will not cease to function if they enter Chapter 11 bankruptcy. They currently supply nearly half of the U.S. auto market, meaning that, as a practical matter, 80 percent of Americans couldn't stop buying from the Big Three even if they wanted to — the 'transplants' (foreign companies making cars in the U.S.) simply don't make enough cars."

But the bailouts are continuing. The Treasury is using monies from the Troubled Assets Relief Program for the auto bailout because the Senate refused to go along with the latter bailout plan. The Bush administration decided to ignore the congressional action and found an extralegal way to hand those funds to automakers. Then, as we write, the Treasury has given itself even more leeway, with the vague language of its "guidelines" said to be enough to bail out, as needed, auto parts suppliers and finance companies.

If one wants to know what happens when you reward imprudence and irresponsibility, one needs look no further than the auto bailout that is careening out of control.

Photo: AP Images