



## Showdown Looms Over Auto Bailout Plan

General Motors (GM) says that it may not have enough cash to keep operating beyond the end of this year, unless the auto market improves real soon. That is not likely to happen, given that nationwide auto sales plunged 18 percent during the most recent quarter. GM's stock price has dropped more than 80 percent this year, to its lowest level in 60 years.

As GM burns through more than \$2 billion a month, a growing number of analysts argue that bankruptcy may be inevitable. GM insists that bankruptcy is not an option because the consequences would be disastrous and extend far beyond the automaker itself. Supporters of GM, such as the Center for Automotive Research, claim that bankruptcy could eliminate 2.5 million jobs and \$125 billion in personal income in just the first year. Over three years, the government's tax take could fall by more than \$108 billion. That is far more than the \$25 billion bridge loan that GM is requesting. It's that kind of arithmetic that has persuaded House of Representatives Speaker Nancy Pelosi to consider just such a loan during a post-election, lame-duck session of Congress.



Pointing to the airline industry, others argue that bankruptcy would not be nearly as traumatic as GM insists. Under bankruptcy protection, GM could renegotiate labor contracts, trim the health and pension benefits costs that undermine its competitiveness against foreign automakers, and override state laws that make it difficult to close unprofitable dealerships. Analysts claim that, just as the airlines have done, GM could carry on with minimal disruption. Michael Levine, a former airline executive who has worked as a consultant for bankrupt airlines, says, "It is quite possible the auto industry is not thinking in truly contemporary terms. A couple of generations ago, the word bankruptcy meant liquidation. Now it very often means reorganization."

A bailout for the auto industry could only be accomplished by a transfer of wealth from the American people to the auto industry, since the government is nonproductive and whatever it spends for the bailout would have to be siphoned out of the economy. The bailout would also further expand the reach of the federal government into the private sector and could touch off efforts in other industries to claim a piece of the \$700 billion rescue package intended for the stabilization of the U.S. banking system. As



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Senator Jim DeMint put it, "This is what happens when you bail out one industry: five more get in line. Some auto manufacturers are struggling because of a bad business structure with high unionized labor costs and burdensome federal regulations. Taxpayers did not create these problems and they should not be forced to pay for them."

Indeed, even though the House may be receptive to an auto industry aid bill, that may very well not be the case in the Senate, where Republicans still control 49 seats until the new Congress starts in January. Many Republicans got beat up on the campaign trail by Democratic opponents for supporting the banking industry bailout last month, so they aren't likely to be eager to bail out the auto industry now, according to Senate aides. Furthermore, a recent poll revealed that helping the auto industry ranks low on the public's list of economic priorities. Only 20 percent believe that helping such corporations with taxpayer money is "critical" or "very important."

On top of that, Treasury Secretary Paulson has already registered his resistance to the \$25 billion auto rescue plan, saying that the \$700 billion intended for the financial industry was not the place to find the funding. He suggested that Congress consider speeding delivery of the \$25 billion in loans already approved for automakers in September. But those funds were meant to be used specifically to help automakers retool their factories to produce more fuel-efficient vehicles, and Democrats dismissed Paulson's suggestion.

The White House is also not eager to sign off on an auto industry bailout. However, the White House does want passage of a stalled free trade agreement with Colombia that would reward President Alvaro Uribe, who has been a reliable U.S. ally. But that trade pact has been opposed by labor union officials and key Democrats. Some observers are speculating on the possibility of a deal in which Bush would go along on a bailout for the car companies if Democrats would yield on the trade agreement. Naturally, both parties have publicly denied it.



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