



Written by [Michael Tennant](#) on August 14, 2012

## Auto Bailout Now Forecast to Lose \$25 Billion — and Counting

At a recent campaign appearance President Barack Obama [touted](#) the alleged success of the federal government's bailout of the automobile industry, saying it saved "more than one million jobs." But while the auto bailout may have kept certain workers on the job, it has taken taxpayers for a ride — and the toll keeps mounting.

According to the *Detroit News*, the Treasury Department now estimates that the government will lose \$25.1 billion on the \$85 billion auto bailout. That's an increase of 15 percent from its last quarterly forecast of \$21.7 billion and of a whopping 80 percent from its May 2011 forecast of \$13.9 billion.



Worse yet, Treasury's "report may still underestimate the losses," the *News* notes. The report only covers the period through May 31, but General Motors' stock has fallen by \$1.73 per share since then, to \$20.47. "At that price," says the paper, "the government would lose another \$850 million on its GM bailout." As the report noted,

The government still holds 500 million shares of GM stock and needs to sell them for about \$53 each to recover its entire \$49.5 billion bailout. At the current price, the Treasury would lose more than \$16 billion on its GM bailout.

The steep decline in GM's stock price has indefinitely delayed the Treasury's sale of its remaining 26 percent stake in GM. No sale will take place before the November election.

"Market weakness" is also hampering other bailout recovery efforts, reports the *News*. Last year, Treasury had planned an initial public offering (IPO) for Ally Financial Inc., a Detroit auto finance company in which it has invested \$17.2 billion. That IPO has since been put off indefinitely, leaving taxpayers on the hook for the \$11.5 billion Treasury has not yet recovered.

The bailout of Chrysler, too, has cost taxpayers dearly: \$1.3 billion of the company's \$12.5-billion rescue has already been written off as unrecoverable.

All this suggests that Obama's declaration that "the auto industry has come roaring back," vindicating his bailouts, is somewhat premature.

The White House, of course, was quick to point out that the latest projected loss of \$25 billion is still significantly lower than the administration's initial prediction of \$44 billion. On the other hand, it is perilously close to the administration's December 2009 revised forecast of \$30 billion. If auto company stock prices continue to fall, the loss could well exceed even the original estimate — par for the course with government forecasting, which is usually far too optimistic.



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“Republican presidential candidate Mitt Romney has decried the losses on the auto bailout and insisted that forcing GM and Chrysler Group LLC to go through bankruptcy first would have saved taxpayers money,” according to the *News*. “But President George W. Bush — who gave the automakers and their finance arms about \$25 billion in his final weeks in office in bailout funds — said there wasn’t time.”

Romney is right: The usual bankruptcy process should have been permitted to take its course, allowing the companies to bring themselves into line with economic reality. As [David Skeel](#) observed in the *Wall Street Journal*:

General Motors was a perfectly viable company that could have been restructured under the ordinary reorganization process. The only serious question was GM’s ability to obtain financing for its bankruptcy, given the credit market conditions in 2008. But even if financing were not available — and there’s a very good chance it would have been — the government could have provided funds without also usurping the bankruptcy process.

Although Chrysler wasn’t nearly so healthy, its best divisions — Jeep in particular — would have survived in a normal bankruptcy, either through restructuring or through a sale to a more viable company. This is very similar to what the government bailout did, given that Chrysler is essentially being turned over to Fiat.

Instead, the government took over the companies, shutting out all other potential buyers in a sham sale that benefited unionized workers and retirees at the expense of everyone else. Chrysler’s senior creditors, for example, got just \$2 billion of the \$6.9 billion they were owed. “But the ‘sale’ also ensured that Chrysler’s unionized retirees would receive a big recovery on their \$10 billion claim — a \$4.6 billion promissory note and 55% of Chrysler’s stock — even though they were lower priority creditors,” Skeel wrote.

Non-union retirees at the GM auto-parts spinoff Delphi, meanwhile, took it on the chin. “Twenty thousand of its workers lost nearly their entire pensions when the government bailed out GM,” reported the [Daily Caller](#). “At the same time, Delphi employees who were members of the United Auto Workers union saw their pensions topped off and made whole.” All this was done at the direction of Treasury, e-mails obtained by the Daily Caller revealed.

Allowing the bankruptcy process to proceed as usual would have been infinitely preferable to an unconstitutional, corrupt government takeover of the auto industry — and it wouldn’t have cost taxpayers a dime. Romney, at least in this instance, gets it.

Rep. Paul Ryan (R-Wis.), on the other hand, does not. Romney’s running mate [voted for the auto bailout](#) and then acted shocked that giving the executive branch a free hand to take over auto companies led to political chicanery. A principled conservative — as Ryan presents himself — would have opposed the bailout on principle from the outset.

Unfortunately, Bush, Ryan, and Obama carried the day, and now taxpayers are left holding the bag for an increasingly losing proposition.



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