Automakers Seek Another $21.6 Billion

The *New York Times* reported that GM has already received $13.4 billion from the Treasury, the most recent installment of $4 billion being received the day of GM's request for more funds. Chrysler has received $4 billion in loans so far, and has requested $5 billion more.

The nation's second-largest automaker, Ford Motor Company, has not received federal assistance so far and has not requested such funding.

GM and Chrysler both included massive cost-cutting measures in their financial viability plans, but also used the veiled threat of bankruptcy — which they maintain would cost the government even more money — to pose the federal bailout as the more economical alternative for beleaguered taxpayers.

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For example, G. Richard Wagoner, Jr., GM's chairman and CEO, said that a bankruptcy filing by his company would be a "highly risky and costly process." The company's president, Frederick A. Henderson, said the company would require as much as $100 billion in debtor-in-possession financing from the federal government if it filed for Chapter 11 bankruptcy. A spokesman for Chrysler said his company would require $25 billion if that step were taken.

Under U.S. bankruptcy law, a corporation that has filed a bankruptcy petition may remain in possession of its property, giving its creditors a lien on its property while it continues to operate its business under Chapter 11 protection. Often, the debtor in possession may be able to keep its property by paying the creditor the fair market value. However, neither statement explained why the federal government should assume financial responsibility for such financing. The obvious explanation is that the federal government has already invested so much in keeping these companies afloat that it presumably would send good money after bad to protect its "investment."

Congressional Quarterly reported on February 18 that the automakers' outlines bring the total request for funds from the government to $39 billion.

Chrysler's chairman, Robert L. Nardelli, predicted: "Chrysler will be viable. An orderly restructuring outside of bankruptcy, together with the completion of our stand-alone viability plan and enhanced by a strategic alliance with Fiat, is the best option for Chrysler employees, our unions, dealers, suppliers, customers, and certainly the taxpayers." However, Nardelli also issued an ominous warning that Chrysler would have to consider filing for bankruptcy if it does not receive more federal aid.

As part of their plan, both automakers proposed drastic job cuts and a scaling down of manufacturing operations over the next few years. GM plans to cut 47,000 jobs worldwide this year, an estimated 20,000 of which will be in the United States. The company also plans to close five North American plants and cut its brand lineup to four: Chevrolet, Cadillac, GMC, and Buick. The Saab, Hummer, Saturn, and Pontiac brands would be eliminated. Chrysler would cut another 3,000 jobs and discontinue three models: the Dodge Durango, P.T. Cruiser, and Chrysler Aspen.

Both companies are also negotiating for a reduction of their debt with bondholders, and all three Detroit automakers (including Ford) seek to modify their contracts with United Auto Workers to remain competitive with foreign manufacturers.

The automakers' financial viability plans are now in the hands of the Obama administration's new cabinet-level Presidential Task Force on Autos. The *Detroit News* reported on February 16 that the White House had confirmed on that day that the new task force (rather than an "auto czar") would oversee the restructuring of General Motors Corp. and Chrysler LLC. The task force will be co-chaired by Treasury Secretary Timothy F. Geithner and Lawrence Summers, director of the White House National Economic Council.

In making the announcement of the new task force aboard Air Force One, Robert Gibbs, White House press secretary, told reporters that the new government body "brings in the vast amount of experience that the administration has to deal with the auto restructuring — any auto restructuring issues."

Gibbs also said that the Obama administration wants "a strong, vibrant auto industry as the basis for our manufacturing in this country.... We have to ensure that the cars of tomorrow are built here by Americans, for Americanism."

Despite the flag-waving rhetoric, there is something distinctly *un*-American about the federal government not only using the taxpayers' money to bail out private corporations.

For starters, every government official takes an oath to support and defend the Constitution of the United States, and in the Constitution, no power is given to use federal funds for such purposes. One who would promote "Americanism" cannot do so by acting in conflict with the Constitution.

Another un-American aspect of the Presidential Task Force on Autos is that such government involvement will likely lead to state control of the auto industry. Look at history: conditions in Italy in the 1930s were similar (though far worse) than what we have witnessed lately. As companies went bankrupt, they were bought out by the banks, which also suffered financial losses. Following a financial crisis in 1932 and the bankruptcy of many major banks, the state created three institutions funded by the Italian Treasury which bought back all the shares in failed Italian corporations owned by the major banks. This new capital was lent to private industry for a maximum period of 10 years.

The result of such intervention was inevitable: by 1935, Mussolini claimed that three-quarters of Italian businesses were under state control.

The automakers claim that if they fail it will cost the U.S. taxpayers more than if they are bailed out now. But why should the taxpayers suffer any loss by being forced by the government to invest unwisely in failing companies?

A true entrepreneur invests his *own* money (or that of willing stockholders), and reaps the reward — or suffers the consequences — of good and bad management decisions. If a company can gain the confidence of neither customers nor investors in a free market, than it deserves to be supplanted by another, better-managed competitor.