



## Obama's Dodgy Remarks on Auto Industry Bailout

President Barack Obama has lately been touting the government's takeover of two of the Big Three automakers as an unqualified success. This is not surprising considering the large hand he had in it; nor is it surprising that his statements on the subject have been less than forthright.

In fact, Obama's June 3 speech to Ohio autoworkers "is one of the most misleading collections of assertions we have seen in a short presidential speech," [writes the Washington Post's Glenn Kessler](#). "Virtually every claim by the president regarding the auto industry needs an asterisk, just like the fine print in that too-good-to-be-true car loan."



For example, Obama stated, "Chrysler has repaid every dime and more of what it owes American taxpayers for their support during my presidency — and it repaid that money six years ahead of schedule." As Kessler points out, the "weasel words" here are "during my presidency"; and, yes, if one counts only the taxpayer money given to Chrysler since Obama took office, the company has paid that back and then some. However, if one includes Chrysler's TARP bailout, which took place during the last month of the Bush administration with the vocal support of President-elect Obama, then the company has only paid back \$11.2 billion of the \$12.5 billion it received. Furthermore, the Treasury Department does not expect to recoup the remaining \$1.3 billion. Thus, when all is said and done, Chrysler will only have repaid 90 percent of the money extended to it — "a more honest presentation," in Kessler's words.

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Kessler also takes issue with Obama's assertion that once Fiat purchases the government's stake in Chrysler, the company "will be 100 percent in private hands." He points out that those "private hands" include, to the tune of 46 percent of the stock, the United Auto Workers.

Perhaps second only to the government, UAW was the biggest winner in the whole auto industry bailout, as University of Pennsylvania law professor David Skeel points out in a [June 6 Wall Street Journal op-ed](#). The rigged process by which Chrysler was "sold" to the government, Skeel explains, repaid the company's senior lenders less than a third of what they were owed but "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.... Victims of defective GM and Chrysler cars waiting to be paid damages weren't so fortunate — they'll end up getting nothing or next to nothing." Being a big-time donor to the President's political party has its advantages.

"All three American automakers are now adding shifts and creating jobs at the strongest rate since the 1990s," said Obama. Conveniently, "the White House says the data to back this claim concerning the Big Three automakers is not public information," according to Kessler, who notes that the Bureau of



Written by [Michael Tennant](#) on June 8, 2011

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Labor Statistics' data on the entire auto industry indicates that there has been an approximately five percent increase in the number of jobs in the industry over the last two years, "from a rather low base" — not exactly the gung-ho growth that Obama's remarks would imply.

Continuing on the topic of employment, the President also asserted, "GM plans to hire back all of the workers they had to lay off during the recession." Kessler characterizes this as "another impressive-sounding but misleading figure." He writes that Obama is referring only to those "9,600 workers who were laid off in the fourth quarter of 2008," who will indeed soon all be back to work. However, Kessler explains, "in the five years since 2006, General Motors announced that it would reduce its workforce by nearly 68,000 hourly and salary workers, creating a much smaller company." Those folks will not be getting their jobs back. But since mentioning that inconvenient fact would have rained on Obama's victory parade, he chose to pretend it didn't exist.

Last, Kessler claims that Obama set up a "straw man" when he said:

In the year before I was President, this industry lost more than 400,000 jobs, and two great American companies, Chrysler and GM, stood on the brink of collapse. Now, we had a few options. We could have done what a lot of folks in Washington thought we should do — nothing.

Kessler says that doing nothing was never an option: "The debate was over the right course to take in the bankruptcy process." That may be true, but allowing the normal bankruptcy process to proceed would have been the equivalent of doing nothing from the government's perspective. It would have cut both Uncle Sam and the UAW out of the pelf and power to be gained from a government takeover.

Still, Obama's statement, along with his assertion that "more than a million jobs ... wouldn't have been around anymore," implies that under normal bankruptcy proceedings the companies would simply have vanished from the face of the earth. Skeel, on the other hand, maintains that both GM and Chrysler could have survived the bankruptcy process, emerging in altered but still recognizable forms. Undoubtedly some jobs would have been lost, and one or both companies might have changed hands, but that is what is happening anyway. Skeel argues that letting this happen without putting taxpayers on the hook for billions of dollars — \$14 billion of which is likely never to be repaid — would have been far preferable to having "the government ... step in, rearrange the existing creditors' normal priorities, and dictate the result it wants."

The long-term effect of the auto industry bailouts, according to Skeel, is likely to be more bailouts. Because the potential for the government to intervene and rob creditors of their due will tend to make "lenders ... very hesitant to extend credit," he writes, "the government will face even more pressure to step in with a bailout in the future." "In effect," he concludes, "government is crowding out the ordinary credit markets."

That would be bad enough if the government had the money to finance all these bailouts; but with \$14 trillion in debt, it doesn't. Instead it leans on the Federal Reserve to create the money out of thin air, and the inflated money supply then forces prices up, leaving everyone not a party to the latest bailout poorer than he was before. Thus, even if the bailouts of GM and Chrysler did save a million jobs, they did so at the expense of everyone else's standard of living — hardly a precedent worth repeating.

As a consummate politician, Obama chooses his facts carefully so as to cast his policies in the best light without getting caught in an out-and-out lie. Even if his chosen facts about the auto industry bailout are technically correct, his interpretation of those facts leaves much to be desired. Certainly a turnaround at GM and Chrysler would be a good thing. But as Skeel observed, "To claim that the car companies



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would have collapsed if the government hadn't intervened in the way it did, and to suggest that the intervention came at very little cost, is a dangerous misreading of our recent history."

*Photo: President Obama speaks in front of a Jeep Wrangler at Chrysler Group's Toledo Assembly complex in Toledo, Ohio, on June 3, 2011: AP Images*



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