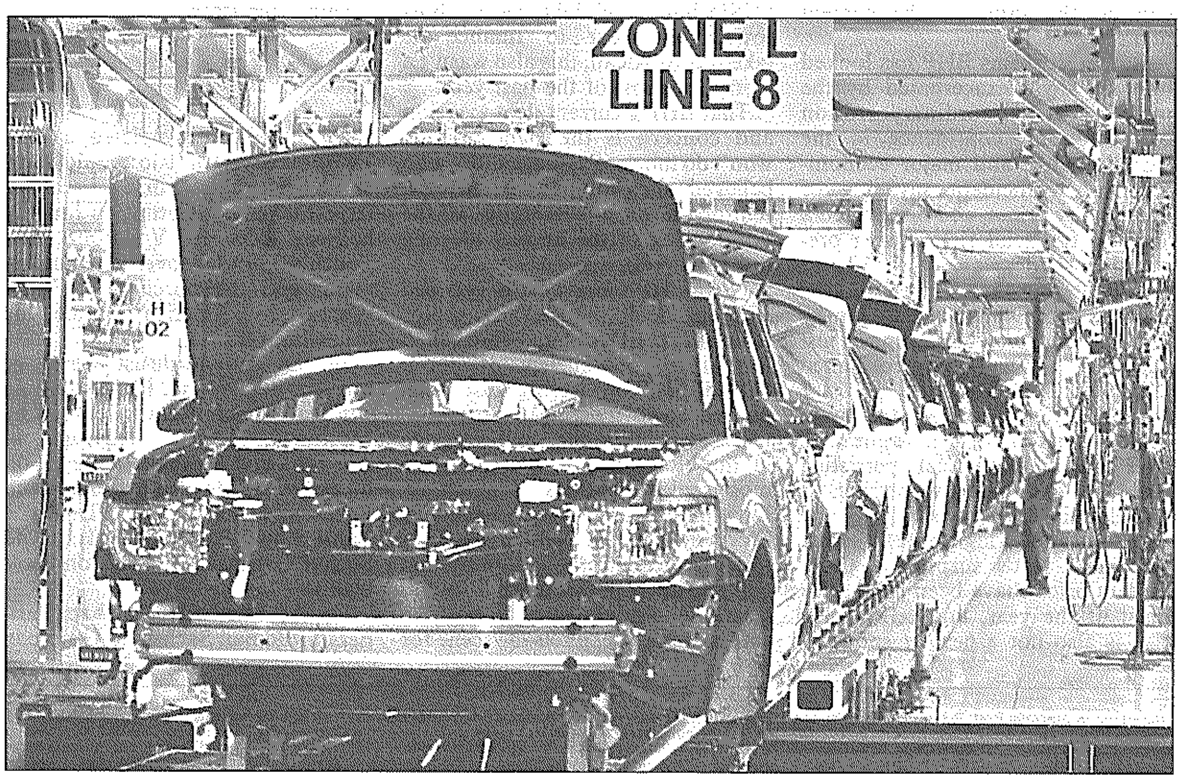
Obama to steer a middle road on car firm bail-outs

America's president-elect is unlikely to allow the big three car makers to slide into bankruptcy, writes **Geoffrey Garrett**.



The US is just not ready to allow its car manufacturing industry to be sold off to China. Photo: REUTERS

Last week, Washington's lame ducks couldn't agree on a bail-out for America's big three car companies, devastated in the past year by the doubling of oil prices followed by the crippling of credit markets. All eyes are now on president-elect Barack Obama.

His position on GM, Ford and Chrysler will offer an early indication of the economic trajectory of his administration.

There is enormous pent-up demand for a return to old-style leftist redistribution in the US, led by the progressive wing of the Democrat Party empowered with increased majorities in both Houses of Congress. The rallying cry of congressional Democrats is righting the perceived wrongs from not only eight years of Bush tax cuts and deregulation, but also almost 30 years of Reagan-inspired tolerance for widening inequality.

Will Obama be a captive of the left, as many conservatives in America worry? Or will he follow his Democrat predecessor, Bill Clinton, and move away from the campaign rhetoric of protectionism and industrial policy to govern from the pro-markets centre?

Obama's post-election celebrations were rudely cut short not only by the wiping of another 10 per cent off the US stockmarket, but also by the announcement that America lost half a million jobs in September and October. Things have only become worse since, with pundits now speculating about the return of double-digit unemployment in the US for the first time since the dark days of the early 1980s.

Obama has said his highest priority is an economic rescue package for the American middle class. There can be little doubt that one element in this package will be to bail out Detroit, the 20th century American symbol of manufacturing might, trade union muscle and Democrat power, where today talk of insolvency has gone from private whispers to public pleas for help.

Detroit's plight is parlous. GM and Ford posted losses of $US30 billion ($47 billion) through the first nine months of 2008 and are saying they will burn through all their cash reserves in the next few months. The big three car makers sold more than a million cars and trucks a month in the middle of 2005.

Today the figure is not much more than a quarter of a million and still falling. GM's share price has fallen from more than $US40 to $US3 in the past year. Though the big three car makers themselves employ only a little under a quarter of a million people today, the industry indirectly supports about 3 million more jobs in car dealers and parts suppliers. Obama cannot be seen to stand by while this many jobs are put in jeopardy.

But what kind of bail-out will Obama support? Democrats in Congress want to use some of the $US700 billion set aside to recapitalise Wall Street. Republicans argue that Detroit's business model is so badly broken that throwing more good money after bad, particularly in these troubled times, would be irresponsible.

Expect Obama to wrap an old-fashioned industrial bail-out in what is emerging as a twin-themed economic strategy. First, firms that accept federal money will have to accept strict limits on executive compensation, the focus of much Main Street anger towards Wall Street. Detroit did little for its cause in allowing its chief executives to take separate corporate jets to Washington to plead its case last week.

Second, Obama will couch the car bail-out in terms of the transformative power of green-collar jobs, helping Detroit move from Hummers to post-Prius plug-in hybrids as part of the $US150 billion Obama wants to spend on alternative energy. This will be made all the more likely following the Democrats' dumping of Detroit's veteran protector, John Dingell, in favour of green Beverly Hills liberal Henry Waxman as chairman of the committee that handles all energy and climate-change legislation in the House of Representatives.

What we won't hear from Obama is support for two more radical arguments.

Many economists and not a few Republicans in Congress want the Detroit car makers to file for Chapter 11 bankruptcy protection. Critics say this is the only way to smash the millstones that have been dragging the companies down for decades — guarantees for dealers as well as generous health care and retirement plans for assembly line workers.

Some might also call for Obama to allow GM, in the worst shape of all the big three, to be sold overseas the way Chrysler was sold to Germany's Daimler in the 1990s. The economics for Chinese acquisition, for example, look good. China's burgeoning car sector needs consolidation, better technology and a foothold in the American market. GM is already the biggest seller of cars in China, made in glistening new factories in Shanghai and other major cities.

But whatever the economic merits of a Chinese takeover of GM, America is just not ready to allow one of the symbols of its 20th century manufacturing miracle to be sold off to an authoritarian country many Americans view as an unfair competitor and looming geopolitical rival.

Obama's presidency will probably end up looking more big government and less pro-market than Clinton's. A Detroit bail-out is inevitable given the dire problems facing the American economy. Obama will work to shape it in ways that further an agenda that fits his vision for the 21st century.

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