

PELOSI AND REID BACK AN AUTO BAILOUT

As the NYT reported yesterday, Nancy Pelosi and Harry Reid have written Hank Paulson requesting he provide relief to the auto industry using TARP funds. First, in her statement on the meeting with the auto industry, Pelosi emphasized what I did in my first post on this—the need to preserve manufacturing in this country.

It is essential that we preserve our manufacturing and technology base in this country.

In addition, in their letter, Pelosi and Reid stress accountability and energy efficiency—pushing precisely the kind of goals that many commenters described in this post.

Were you to determine that the automobile industry is eligible for assistance under EESA, **we would urge you to impose strong conditions on such assistance in order to protect taxpayers and maximize the potential for the industry's recovery.** An automobile industry that is **forward-looking and focused on ingenuity, competitiveness, and the creation of green jobs** for the future is essential to its long-term viability. Other taxpayer protections should mirror those required of financial institutions currently participating in the Troubled Assets Relief Program (TARP), such as limits on executive compensation and equity stakes to provide taxpayers a return on their investment upon the industry's recovery. Any assistance to the automobile industry should reflect the principles contained in EESA that guard against the need to recoup costs to the taxpayers.

We must safeguard the interests of American taxpayers, protect the hundreds of thousands of automobile workers and retirees, stop the erosion of our manufacturing base, and bolster our economy. It is our hope that the actions that Congress has taken, and that the Administration may take, will **restore the preeminence of our domestic manufacturing industry so that it can emerge as a global, competitive leader in fuel efficiency and in new and path-breaking energy-efficient technologies** that protect our environment. [my emphasis]

While Pelosi and Reid seem convinced the auto industry needs this bailout, they seem intent on placing conditions on it—with the goal of energy efficiency paramount.

I am pessimistic that Paulson will respond to Pelosi and Reid's request—he has thus far resisted GM's requests to be considered for funds under TARP—and that Treasury has the capability to offer the kind of oversight that this would require. After all, presumably TARP funds would only come with requirements on lending practices, and though the finance arms of the Big Two and a Half have some irregularities, the financing of consumer loans and loans to dealers have fewer of the novelties that the mortgage market had (though if Treasury were to give money, it ought to limit the number of auto loans extended beyond five years, as anything longer tends to result in consumers upside down on their loans). What Treasury probably doesn't have is a means to prevent auto companies from making bone-headed decisions that ignore the marketplace.

That said, even while Pelosi and Reid submitted a request that—at some critical levels—relates to constrained credit, Treasury is still throwing money out in bundles to both banks and AIG. I can see valid arguments both supporting and opposing sharing bailout money with the car

companies. But any argument against it invites serious questions about the direction of our economy going forward.

Are we bailing out the economy—all of which suffers from the credit crunch—or just the finance side? I guess we'll soon find out.