THE NEXT ANTI-UNION MYTH: OBAMA GAVE THEM CHRYSLER

Prepare to see lots more stories like this one–stories that suggest Obama, out of whatever good intentions, decided to "give" the UAW Chrysler even while he deprived banks of their rightful return on debt.

> Regardless of its literary influences [in Machiavelli], the Obama administration's decision to give unions a big stake in the ailing Chrysler while strong-arming banks into forgiving a huge portion of debt is a sign of the times.
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> A nearly bust carmaker, several lenders that owe the government billions of dollars (and, in some cases, their survival) and an interventionist president eager to be seen to be tackling the nation's economic ills: welcome to the United States of America 2009.
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> I have heard the arguments supporting the decision to short-change debt holders and carve out Chrysler between the unions (which get 55 per cent but just one board seat), Fiat (up to 35 per cent and three board seats) and the government (most of the rest of the equity and four board seats).
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> They boil down to this: extraordinary times require extraordinary measures (the end justifies the means, if you like).
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> In other words, with Chrysler employing more than 50,000 people in the US and Canada, it was paramount to avoid a long bankruptcy that would have destroyed the company.

> If that meant giving junior creditors such as the unions favourable treatment at the expense of senior debt-holders, so be it. As for those hedge funds that rejected the plan, they are nothing but “speculators” according to Mr Obama.

Absolutely critical to the myth of the poor little hedge funds being strong-armed by the evil union and the interventionist President is the conflation of "the union" with VEBA, the fund to provide retiree health care that is controlled by the union to which Chrysler actually owes the money. I know it makes Financial Times readers lash out to hear of an evil union budging ahead of productive hedge funds, but in truth this was a matter of dealing with Chrysler’s biggest creditors–whether it be JP Morgan Chase or a fund run by a union–and not a matter of class warfare.

Now to be fair, there is a germ of truth in this article: the poor little hedge funds purportedly being strong-armed by the union do hold debt that takes precedence over the VEBA fund. In relative terms, a tiny bit of it. But that’s their problem, not that the evil union stole their money, but that the larger secured debt-holders have a big enough share of the debt to be able to make a deal without them; as masaccio explains, it’s called cramdown, and it’s not unusual. The key to Obama’s deal is not any allegiance to the union–tens of thousands of jobs are going to be lost in this deal even in the best scenario, and current workers have already made huge sacrifices (see this article for a description of what the Chrysler deal really means for the union members themselves)–but instead due to his leverage over the big banks–JP Morgan Chase and Citi–that have been sucking at the federal teat for the last year, and to those banks’ interest in getting the most money out of their investment in Chrysler. I guess those poor little hedge funds should have found stronger big players to associate with, because JP Morgan Chase and

Citi’s interests are not in the same place as the hedge funds (or weren’t after Obama’s team started negotiating in earnest). Furthermore, the shills for these poor little hedge funds ~~unions~~ pretend that, without the government intervention they decry, there would be anything left for them to take.

> Analyses going around of how the new Chrysler stock would be distributed in a typical bankruptcy assume that Chrysler has the right to claim the government’s billions, and then split them among its own creditors. It does not.

That is, the only thing keeping Chrysler out of Chapter 7 liquidation is government funding. And liquidation of Chrysler–the sale of factories that no one has the need for right now, given declining sales–wouldn’t net much value even for secured debt-holders. Given the relatively small stake these vultures have in Chrysler, they’re choosing between some value or less value. Obama’s intervention itself is the only thing that makes the "some value" an option, but they’re attacking the intervention itself even while–as soon as they get any money out of Chrysler–will join JP Morgan Chase and Citi in sucking at the federal teat.

Ultimately, though, here’s what the FT is arguing. That the principle of secured debt–and with it the principle that we should have hedge funds making big profits by killing off the productive parts of our economy–is more important than those productive parts of the economy. I don’t doubt many of the FT’s readers believe that. But it goes against another principle that capitalists like to spout, that all these finance games ultimately support production and not just raw greed.

The capitalist myths are really at a crossroads. They can continue to insist that all these finance games do … something positive for our society, in which case Obama’s stated principles (at least here) will win out. Or they can expose themselves as the true parasites they are. But once they expose themselves as parasites deliberately dismantling the productive side of our economy to fatten their pocketbook, it’ll make it a lot easier to make the changes to our larger economy we need.

But until this happens, when a business writer conflates "the union" with "VEBA" you can be sure he’s shilling for a bunch of parasites trying to get rich sucking at the federal teat while killing our real economy.