FDL BOOK SALON WELCOMES STEVEN RATTNER, AUTHOR OF OVERHAUL

I come to Steven Rattner's *Overhaul: An Insider's Account of the Obama Administration's Emergency Rescue of the Auto Industry* from a very particular perspective. As a Michigander whose husband still works in the auto industry and whose town has benefited from battery subsidies, I'm a grateful direct beneficiary of the work the Obama Administration did to save the auto industry. But that also means I read this book, which might have been subtitled, "Wall Street gapes at Detroit" from the perspective, "Detroit gapes back at Wall Street."

The Key to the Bailout: Section 363

There are key parts of the story I was eager to read, particularly the inside details on how Team Auto brought GM and Chrysler through bankruptcy in such short time. The decision–which Rattner traces to a suggestion he made in December 2008–to use Section 363 of the bankruptcy code is what made the whole bailout work. It allowed Team Auto to move the viable parts of Chrysler and GM into new companies, leaving much of the debt and underperforming parts of the companies (like Saturn or Pontiac) behind. As Rattner describes, preparing for 363 took a lot of negotiations with stakeholders–notably the UAW and bondholders–ahead of the actual bankruptcy filings to bring the time they'd spend in BK down from the 6 to 15 months originally projected, to the month or two it ultimately took. Much of the book's narrative is about the deal-making Rattner himself led. Some interesting details of that deal-making: that Tim Geithner instructed Rattner not to make any special demands of TARP recipients who were also

Chrysler bondholders, that Citi feared consumers would take their branch banking in MI and OH elsewhere if it played hardball, and that JPMorgan Chase's chief negotiator Jimmy Lee,

> demanded to know why, if the government thought banks important enough to give them tens of billions in TARP money, it wanted to squeeze them on [the Chrysler] deal.

In additional to this central drama, Rattner provides worthwhile details of what he learned over the course of this intervention. Some of these are details widely known in car country, but dismissed by much of the rest of the country: that GM had closed most of the gap in labor costs with transplants by the beginning of the restructuring, that GM plants really were competitive in terms of productivity, and that trimming the number of dealers was crucial to the success of the restructured companies. Rattner also added to my understanding of why GM needed help: he described the sheer ineptitude of GM CFO Ray Young and what Rattner describes as the ineffectiveness of GM's chief lobbyist. And the last chapter, in which Rattner provides a partial explanation for the quick departure of Ed Whitacre, answers some, but not all, of my questions about the transition from GM CEO to CEO over the last two years.

One Missing Detail: Cerberus' Role

One part of the story I wish Rattner had told more fully is the role of Cerberus in the bailout. There were a number of questions about Cerberus' role in the initial negotiations with the Bush White House, particularly since that initial loan underfunded Chrysler in comparison to GM. But Rattner tells a story that is very favorable to Cerberus. For example, he rather amusingly attributes Cerberus' offer–in December 2008–to just hand over Chrysler to the government for a dollar, to patriotism. Rattner makes that claim by neglecting any mention of Cerberus' own desperate straits at the time. He doesn’t mention, for instance, that Cerberus had limited withdrawals from some funds, citing a desire for liquidity and invoking a “‘perfect storm’ in the auto and housing sectors.” And it’s over a hundred pages after his description of that December 2008 offer before he mentions GMAC’s successful effort to gain bank status and receive TARP funds, a move approved in that same December period and which has been an area of TARP that has come in for particularly sharp criticism. It turns out that private equity guy Steven Rattner tells a story that focuses primarily on the incompetence of manufacturing companies, even though private equity fund Cerberus’ failures and demands for a free ride were very much a part of the story of the auto bailout.

And these areas, where Rattner’s Wall Street perspective displays his own biases, are as interesting as the details about the bailout.

The Cost and Benefits of an Outsider

Take Rattner’s inconsistency over whether appointees overseeing industries should have any expertise in those industries. On page 48, Rattner repeats his complaint about politicians (in this case Debbie Stabenow and Carl Levin) questioning his qualifications for the job. But then, on the very next page, he endorses a view that the Treasury Secretary had to be someone with credibility in the financial world, precisely the equivalent of what Stabenow and Levin were asking for the Auto Czar position.

> Essentially, only Larry and Tim had the necessary government experience, along with the credibility vital in the financial world.

This unquestioning endorsement of an insider for the finance world is shortly followed, on page 52, by one of the details that shocked me the most in the book: the report that neither Rattner, nor Geithner, nor Summers were cognizant of the degree to which the auto slowdown would affect (and was already affecting) the suppliers.

> Automotive suppliers started to fail, which was how I discovered that the scope of my assignment was much broader than I'd anticipated. GM and Chrysler had dominated the conversations with Tim and Larry. None of us appreciated that, with auto sales down 40 percent, the collateral damage among related businesses would be vast.

Now, the stress the suppliers were (and are) under was a known fact to anyone with a basic understanding of the industry. The Center for Automotive Research (a group Rattner later relied on for industry analysis) produced a widely-cited report on the economic consequences of an auto collapse in November 2008, which projected the dire impact on suppliers in case of an auto contraction. And reports explaining Toyota's support for a bailout covered the supplier issues as well. Yet, even as an inexperienced Rattner was learning this well-known fact on the job, thousands of supplier employees were already losing their jobs. (Rattner describes a similar rather belated discovery–how the financial collapse had dramatically hurt the auto finance companies, and with them the debt-driven market they supported–on page 145.)

Mind you, Rattner makes a good case in this book for bringing in outsiders to restructure any industry the government bails out, even while the evidence he presents, with this story and a few others like it, hint at the costs of having no one with expertise involved.

Which brings me to the question I'll end this post with. So, to Steven: You suggest that the unhappiness with the bank bailouts has to do with the absence of the same shared sacrifice the auto bailout demanded. But that's only half of it: The big problem is that finance is still broken, it's still dragging the rest of the country down. Putting the question of firing CEOs aside, how did the Obama Administration insist on a complete overhaul for one industry, but status quo for the other? And what could be done, particularly as we learn more about the foreclosure fraud engaged in by top TARP recipients, to undertake the kind of overhaul that has served the auto industry so well? (Note, Rattner does address some of this in the book. He provides several–to me, unconvincing–explanations for the disparate treatment of the bankers and the auto makers–see pages 115, 216–and states he would have fired the bank CEOs that needed government help.)