

FORGOTTEN TOOBZ FAIL

I woke up this morning and tried to do a post comparing how the UAW acts after getting bailed out with how JPMorgan Chase does. But then I realized I forgot my Toobz chez Prince-town. That's probably just as well since I'm supposed to be packing all weekend. So consider this an open thread until such time as I take a break at a coffee shop or bmaz takes over.

UAW SELLS OUT AMERICAN WORKERS FOR 800 JOBS

800 jobs in exchange for losing 159,000 jobs—that's the math the UAW has done.

RATTNER'S PUMP DUMP

✖ When Steven Rattner published this piece on the GM IPO in HuffPo, he had not yet been sued by NY's Attorney General for allegedly being "willing to do whatever it took to get his hands on pension fund money including paying kickbacks, orchestrating a movie deal, and funneling campaign contributions," nor had he yet settled—with no admission of guilt—the SEC investigation that alleges he, "delivered special favors and conducted sham transactions that corrupted the Retirement Fund's investment process." Thus, it would go too far to call the Steven Rattner that published that piece a fraudster, or even an alleged fraudster.

But a big part of this victory lap is

fraudulent.

A key part of Rattner's argument is that by fixing management issues, Team Auto dramatically altered GM's value.

A fashionable bit of revisionist history maintains that former GM chief executive Richard Wagoner should not have been fired, especially by a bunch of Wall Street guys turned government bureaucrats. Yet, Ford – which not only avoided bankruptcy but will achieve record profits this year – faced exactly the same challenges as GM: the same United Auto Workers, the same competition from Asian transplants, the same oscillating gasoline prices and the same credit crisis. Why did the two automakers end up on such different paths? Management.

Now, I don't much agonize over Rattner's decision to fire Wagoner. I absolutely support the idea of firing CEOs whose companies have to be bailed out. Hell, I even agree that Wagoner's firing is probably a key part of getting the bankers to trust GM again. But I recognize—as Rattner doesn't—that Wagoner had started along the same path that Ford's Alan Mulally had, only about a year and a half behind Mulally, meaning those efforts were more directly affected by the disaster caused by Rattner's buddies on Wall Street. But on balance, I'm perfectly happy with Rattner's decision to fire Wagoner.

What I'm **not** fine with, though, is Rattner's attack on Wagoner in the same piece he takes credit for two or three business decisions that Wagoner made. Wagoner indubitably presided over GM's emphasis on China and Brazil, which Rattner calls "enormously successful."

He likewise oversaw—with Bob Lutz—the development of the GM products now experiencing success in the marketplace, particularly the Malibu, Equinox, and Camaro, which rolled out

just as the government came in (the interim team shares credit for the Cruze and Volt).

Its products, while vastly improved in recent years, still do not match those of Ford and its non-U.S. competitors.

[snip]

And at 15 million, General Motors – with its improved products, tighter management, lower cost structure and better balance sheet – will be gushing profits.

And by negotiating VEBA, Wagoner also had a significant role in setting up the conditions that enabled Team Auto to take retiree health care off GM's books, a big part of the structural costs Rattner takes credit for.

At least \$8 billion of annual structural costs sliced from the company's bleeding North American operations.

If you want to pump up GM's IPO price based significantly on its improved product quality and its success in China and Brazil, then you cannot at the same time make the firing of Rick Wagoner a central part of your argument for the value of the company. Either Wagoner did a good job on market and product issues, in which case Rattner's friends are justified to stress improved product quality and great growth potential in China and Brazil, or Wagoner was a complete failure, in which case the folks pushing this IPO are pushing shit. (I believe GM has a great deal of value, though wouldn't presume to describe its the fair market value of its stock.)

And if all of that doesn't lead you to question Rattner's motives and credibility here, check out whom he designates as the appropriate person to pick stocks.

I'll leave the stock picking to Jim Cramer while observing that GM's IPO was

priced at a discount to Ford's trading multiple. That's understandable, given the uncertainties around GM. At the same time, proving itself to Wall Street and closing that multiple gap remains a source of upside for the newly public automaker.

Jim Cramer, famous above all for pumping up stocks with his overheated bluster.

Look, I'm all in favor of Rattner having the benefit of the doubt as he defends himself against charges of fraud. I'm thrilled that GM had a successful stock offering today, even if I'm cautious about what it means. But I'm not in favor of pumping up the stock price of GM based on a specious argument claiming credit for things Rick Wagoner did, even while pointing to Wagoner's firing as a key part of GM's value proposition.

HAPPY GM DAY.

Wall Street and the Administration are hailing the GM IPO and claiming victory.

General Motors Co GM.UL pulled off the biggest initial public offering in U.S. history on Wednesday, raising \$20.1 billion after pricing shares at the top of the proposed range in response to huge investor demand.

GM sold 478 million common shares at \$33 each, raising \$15.77 billion, as well as \$4.35 billion in preferred shares, more than the initially planned \$4 billion.

Including an option that would allow underwriters to sell more shares, expected to be exercised in coming days, GM looks set to raise \$23.1 billion,

making it the biggest initial public offering ever.

The strong response to the stock sale reflects a groundswell of investor confidence that GM is moving beyond its unpopular, taxpayer-funded bankruptcy in June 2009 with sharply lower costs and higher profit potential.

Now, don't get me wrong. I will always remain grateful that Obama bailed out the auto industry, and I am a direct beneficiary of that policy. And I do think many of the decisions and actions Team Auto took last year—most notably the fast track bankruptcy—were the right decisions, incredibly well executed. And I think the cars currently in GM showrooms are good cars.

But this IPO is no great reflection, one way or another, on the success of the bailout.

Indeed, it may be something far worse. It may be a propaganda stunt that will allow the banksters—the ones in charge of the bailout, as well as the current private equity CEO, as well as the firm which consulted on the IPO whose Chairman is auditioning to take on a top advisory role in the Administration, as well as the big banks involved in the IPO whose TBTF status the Administration has fiercely protected—to claim victory. And of course, every single one of those banksters has a huge incentive to create a stunt that will allow the Administration to claim victory. But that won't say much about or do much to ensure GM's long-term value.

Mind you, I hope that's not true. I hope the universe of possible car buyers believe that GM's cars reflect a value of \$33/share or more (the banksters think they'll be able to drive up the share price in the coming days). More importantly, I hope GM sustains recent improvements in their product line even as the new top executives—particularly the ones who had

nothing to do with the currently improved products who have changed the process and people that produced those cars—remain in charge.

But we won't know the answer to that question for another 2 years or so. And we won't know whether GM will improve its brand image enough to make cars more profitable for some time yet, either.

And, too, I hope those banksters driving up the price of GM's stock keep that stock for the long term. I hope this doesn't resemble a 90s style, pump and dump, IPO. But we won't know that for a little while either.

What we know is that the banker-CEO pointed to lower costs (which the bailout did make possible) and GM's strong position in China (which the purportedly failed Rick Wagoner implemented long before the bailout but which didn't, by itself, do much for GM's value before the bailout) in his pitch for the IPO.

In a road show for investors spearheaded by GM Chief Executive Dan Akerson and Chief Financial Officer Chris Liddell, the automaker has emphasized both its sharply lower costs and its exposure to key growth markets like China.

But it's not clear he said much about the cars. The cars that, one way or another, will ultimately determine the success or failure of the bailout.

In other words, what this IPO seems to reflect is the successful sale of a new balance sheet tied to a market mix that, before the bailout, Wall Street was none too impressed by. It seems to reflect the enduring belief on the part of the banksters that the only value worth measuring is that determined by Wall Street, and not that value measured by the ultimate consumers of a product.

The GM products shepherded through by Rick Wagoner and Bob Lutz are selling well at stores.

The GM balance sheet shepherded through by Steven Rattner is selling well on Wall Street.

But what remains to be seen is whether the cars produced in two years by the development process implemented by Ed Whitacre and Dan Akerson will sustain and increase the value of cars in showrooms to match the \$33/share value pitched by the banksters.

Good luck and happy GM day.

THE BANKSTER'S STENOGRAPHER CLAIMS CREDIT FOR PRIVATE EQUITY

For some reason, Andrew Ross Sorkin felt the need to weigh in on the debate over whether Rick Wagoner or Team Auto should get credit for GM's turnaround.

He probably shouldn't have, seeing as how some of his evidence against Wagoner is that "he wasn't able or willing to cull failing brands like Pontiac, for example, or **get his arms around out-of-control legacy costs.**" Steven Rattner himself admits, of course, that Wagoner's the one who negotiated VEBA with the UAW and got the legacy costs of retiree health care off of GM's books, even if he doesn't emphasize that point.

But what's most hysterical is that Sorkin's defense of private equity guys...

Indeed, the private equity industry and its many lobbyists have been fighting for years to prove their value to the public, producing all sorts of studies and white papers to back up their claims. And yet, Mr. Gladwell gets to the

nub of the image problem confronting the industry in the blink of a sentence (pun intended): "The mythology of the business is that the specialists who swoop in from Wall Street are not economic opportunists, buying, stripping and selling companies in order to extract millions in fees, but architects of rebirth."

[snip]

He's right: the GM turnaround is ultimately an act of financial engineering. While "financial engineering" has become an expletive of sorts, in this case it is actually a good thing. Indeed, G.M.'s turnaround should become a case study for when and why the private equity and restructuring business can work.

[snip]

But for certain companies – and only in certain circumstances – there is something to be said about bringing in an outsider with this credential on the résumé: financial engineering experience.

... doesn't once mention that other company that got bailed out by Team Auto: ~~Chrysler~~ Cerberus.

For what it's worth, I am willing to concede (and have) that it makes sense to bring in guys with "financial engineering" experience to revamp failed businesses (though just as critical is having someone with basic business expertise from outside of the culture of the industry in question).

But one of the biggest differences between Cerberus' spectacular failure with Chrysler and Team Auto's initial success with ~~Chrysler~~ Cerberus and GM is that Team Auto was not trying to suck the last bits of value out of a company (as Cerberus was trying to extract the finance

part of Chrysler while screwing the manufacturing side).

An astute journalist probably would have acknowledged that point.

Update: This post originally called Sorkin “Aaron,” not “Andrew. Apologies to Aaron Sorkin and thanks to pdaly for pointing out my mistake.

RATTNER, WAGONER, AND HOW TO RUN A CAR COMPANY

I’m going to have a few follow-up posts about Steven Rattner’s Overhaul generally and Saturday’s book salon on it. But for the moment, I wanted to add something to two excellent reviews of it by Malcom Gladwell and Felix Salmon. Together, they both distinguish between the product GM makes and the debt it had. Here’s Salmon:

That Rattner’s team managed not one but two insanely complex bankruptcies in a hitherto unimaginably short timeframe is a real and noteworthy achievement of the Obama administration. Rattner is right about that. But Gladwell’s got a good point too. This kind of biz-school restructuring is easy to show off about. What’s hard is making millions of cars which are so good that the picky US consumer will buy them rather than the incredibly well-made competition – and making a profit by doing so. Eliminating GM’s monstrous debt burden by sending it through bankruptcy was a necessary step in getting there. But it’s not at heart what managing a company like GM is or should be about.

And here's Gladwell making a point ~~bmaz~~ and I argued, that Rick Wagoner, whatever his faults, had done significant work to fix GM before the overhaul.

Wagoner was not a perfect manager, by any means. Unlike Alan Mulally, the C.E.O. at Ford, he failed to build up cash reserves in anticipation of the economic downturn, which might have kept his company out of bankruptcy. He can be faulted for riding the S.U.V. wave too long, and for being too slow to develop a credible small-car alternative. But, especially given the mess that Wagoner inherited when he took over, in 2000—and the inherent difficulty of running a company that had to pay pension and medical benefits to half a million retirees—he accomplished a tremendous amount during his eight-year tenure. **He cut the workforce from three hundred and ninety thousand to two hundred and seventeen thousand. He built a hugely profitable business in China almost from scratch: a G.M. joint venture is the leading automaker in what is now the world's largest automobile market. In 1995, it took forty-six man-hours to build the typical G.M. car, versus twenty-nine hours for the typical Toyota. Under Wagoner's watch, the productivity gap closed almost entirely.**

Most important, Wagoner—along with his counterparts at Ford and Chrysler—was responsible for a historic agreement with the United Auto Workers. Under that contract, which was concluded in 2007, new hires at G.M. receive between fourteen and seventeen dollars an hour—instead of the twenty-eight to thirty-three dollars an hour that preëxisting employees get—and give up all rights to the traditional retiree benefit package. The 2007 deal also transferred all responsibility for

paying for the health care of G.M.'s retirees to a special fund, administered by the U.A.W. It is hard to overstate the importance of that second provision. G.M. has five hundred and seventeen thousand retirees. Between 1993 and 2007, the company paid out a hundred and three billion dollars to those former workers—a burden unimaginable to its foreign competitors. In the 2007 deal, G.M. agreed to make a series of lump-sum payments to the U.A.W. over ten years, worth some thirty-two billion dollars—at which point the company would be free of its outsized retiree health-care burden. It is estimated that, within a few years, G.M.'s labor costs—which were once almost fifty per cent higher than the domestic operations of Toyota, Nissan, and Honda—will be lower than its competitors'.

In the same period, G.M.'s product line was transformed. In 1989, to give one example, Chevrolet's main midsize sedan had something like twice as many reported defects as its competitors at Honda and Toyota, according to the J. D. Power "initial quality" metrics. Those differences no longer exist. The first major new car built on Wagoner's watch—the midsize Chevy Malibu—scores equal to or better than the Honda Accord and Toyota Camry. **G.M. earned more than a billion dollars in profits in the last quarter because American consumers have started to buy the cars that Wagoner brought to market—the Buick Regal and LaCrosse, the Envoy, the Cadillac CTS, the Chevy Malibu and Cruze, and others.** They represent the most competitive lineup that G.M. has fielded since the nineteen-sixties. (Both the CTS and the Malibu have been named to *Car and Driver's* annual "10 Best Cars" list.)

What Wagoner meant in his testimony

before the Senate, in other words, was something like this: "At G.M., we are finally producing world-class cars. We have brought our costs, quality, and productivity into line with those of our competitors. We have finally disposed of the crippling burden of our legacy retiree costs. We have expanded into the world's fastest-growing markets more effectively than any other company in the United States. But the effort required to bring about that transformation has left our balance sheet thin—and, at the very moment that we need a couple of years of normal economic activity to refill our coffers, auto sales have fallen off a cliff. Do you mind giving us a hand until things get back to normal?" [my emphasis]

Now, FWIW, I'm agnostic about keeping Wagoner on as CEO. Gladwell makes the same points bmaz and I were making. But I am utterly sympathetic to the notion that any CEO getting a bailout should be fired as part of the deal. The best solution, IMO, would have been to keep Fritz Henderson on as CEO. That's partly based on my impression—developed during my visit to GM's Tech Center just a few weeks after Fritz took over as CEO—that he had begun to implement the same kind of cultural change that I saw very quickly at Ford after Alan Mulally took over.

But neither Salmon's nor Gladwell's review mention two key details that I think are important to this debate. The first is Rattner's description of learning about the dire straits of the auto finance companies on **April 1, 2009**.

I entered the byzantine world of the fincos the very next day, April Fool's Day, as it happened. We faced off in a Treasury Department conference room against an imposing lineup of businesspeople: the top management from Chrysler Financial, GMAC, and Chrysler, plus Steve Feinberg and the guys from

Cerberus. They all knew more about automotive finance than we did. We were trying to fly solo without having taken flying lessons, and I hoped we wouldn't crash and burn.

Pretty quickly I discovered that the fincos posed a bigger problem than I'd imagined. Auto finance companies are a lot like banks, but there is one crucial distinction: Banks rely on deposits from consumers and businesses for most of the money they use for loans. Finance companies have no such depositors unless they happen to own a bank: instead they must depend on larger borrowings from banks and investors for the cash that they lend to car buyers (known as the retail trade) and auto dealers (known as the wholesale or floor-plan borrowers).

I began to understand how the collapse of the financial markets had created havoc for automakers. As a result of the credit crunch, both GMAC and Chrysler Financial had seen their ability to borrow from banks severely curtailed. To raise added funds in recent years, the fincos had also made heavy use of securitizations, in which their loans to consumers and dealers were bundled, sliced up like a layer cake, and sold off in tranches, typically to investment funds. This market, too, had imploded in 2008, cutting off another key source of funds. As a result of this, the fincos had drastically reduced lending to consumers and dealers, a major factor in the steep falloff of car sales. (145)

Well over a month after Rattner officially got started, he finally sat down with the fincos. Remarkably, Rattner emphasizes that he was out of his league discussing auto finance; nowhere in his book does he make such an admission about the car business, about which he was far more out of his league.

And Rattner describes learning, well over a month after he came on board, that one of the key causes to the auto crash was the Wall Street crisis.

Which is precisely what Rick Wagoner, Carl Levin, Debbie Stabenow and all the other Michiganders—the ones Rattner loves to mock—were saying back in November and December when they first came asking for money.

Rattner doesn't say it explicitly, but this is basically a concession that all those people he describes as morons were right.

Of course, Rattner either simply didn't know that this is what the entire debate was about (another problem having someone completely ignorant about the auto industry leading its bailout), or he chose not to believe it until a bunch of finance guys—guys like his fellow private equity guys at Cerberus—told it to him.

And then there's the second point, which I'll just touch on (hopefully, I can nudge bmaz to do a full post on it). As Gladwell and Salmon note, Rattner's book suggests the success of the BK overhaul equates to full success. It's true that it is a huge accomplishment. But it is very premature to judge the bailout in any case. That's partly because GM may still do things—like use taxpayer dollars to start importing cars from China—what will be devastating on many levels. More importantly, it all does come down to product. The products that are getting some kudos right now are Wagoner and Bob Lutz's products, not Rattner and Ed Whitacre's. And Whitacre did at least two things that may have detrimental effects on product down the line, two or three years from now: he accelerated the development process beyond the Toyota standard that GM had already achieved (even while Toyota has slowed their own down in response to their quality issues). It remains to be seen whether GM can sustain its quality improvements with this accelerated schedule. In addition, Whitacre ousted Lutz, who even Rattner describes as one of the culturally

important things GM had going for it.

Gladwell and Salmon are right: there's far more to running a car company than just finance. Because of that, it'll be a few years before we know whether Rattner's choices for CEO will end up undoing much of the work that Wagoner had achieved.

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 addition 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.)

THE ANONYMOUS COWARD RETURNS

The White House was okay with Robert Gibbs attacking the Professional Left and their Catfood Commission Co-Chair attacking, well, everyone.

But they wouldn't let Steven Rattner's claim that Rahm Emanuel had attacked the UAW go unanswered.

Rattner depicts White House Chief of Staff Rahm Emanuel as a force to be reckoned with who disparaged unions —

once quipping “Fuck the UAW” – and who effectively supervised Treasury Secretary Tim Geithner during his first rocky months on the job by dictating his public appearances and staff picks.

However, unlike Rattner, who put his name to his version of Rahm’s attack on the UAW, the White House push-back was done under the cover of cowardly anonymity.

A senior White House aide emails:
“Throughout the entire process that saved the auto industry, Rahm tirelessly defended and advocated on behalf of the auto workers. Any suggestion to the contrary is simply ridiculous.”

Uh-huh. So ridiculous that it couldn’t be said on-the-record.

CHEVY VOLT: WHY DON’T PEOPLE UNDERSTAND TWO FOR THE PRICE OF ONE?

I’m a little amused by the uproar over the official announcement yesterday that the Chevy Volt will sell for \$41,000.

Yes, I know, very few people have that money in their pocket.

I’m amused, first of all, because GM has been saying for years—since before they were bailed out—that the Volt would cost “around” \$40,000. So you can bet that those who are shocked shocked! by this pricetag haven’t been paying attention.

Another clue that they haven't been paying attention is the quick comparison with the Nissan Leaf. The Leaf, of course, is an electric-only car, with a 100 mile range. Want to drive home for the holidays? Better rent a car. Got planning issues somewhere in the vicinity of 90 miles since your last charge? Screwed.

But with the Volt, you get two modes of propulsion in one car, so that you can use electric only on a day to day basis (most commutes, according to GM, are under 40 miles), but then have the engine there when you need it. This car is designed to bridge people—and our country's infrastructure—to electric consumption.

Not to mention the fact that GM's efforts to [re]build—yeah, I know, it's their own damn fault—infrastructure for plug-ins may well be critical for cars like the Leaf. A company as big as GM—particularly one that has just been bailed out by a federal government interested in alternative energy—has more credibility when negotiating with municipalities about plug-in infrastructure, which will make it more likely a Leaf owner will be able to find a plug when she hits that badly-planned 90th mile.

But the real reason I'm so amused is because this pricing isn't much different from the pricing of the Prius back when it was targeted to a small group of early adopters. Back then, GM decided not to produce a hybrid because it was too expensive to sell profitably to masses of people. Toyota, on the other hand, sucked it up and lost money for years as the market for it slowly grew and the costs for it slowly came down. That decision—and the halo accorded the rest of the company because of one long-unprofitable car—has been one of the most valuable things Toyota has done.

Finally, though, it's funny to see the shoe on the other foot. When GM decided not to embrace hybrids (stupidly), it said, over and over, "they're too expensive." It seems that critics

(often forgetting how long the Prius remained unprofitable and significantly more expensive than other sedans) didn't believe them.

I guess now they do.

OBAMA COMES TO MI TO CELEBRATE KOREAN TECHNOLOGY

Let me start by saying I'm thrilled the Obama Administration has focused stimulus and energy efficiency funds to support a number of new battery plants in and around Michigan. For all my complaints about the Obama Administration, it has used the auto bailout as an opportunity to support new technology for the auto industry. But I think Obama's upcoming visit to Holland, MI (Crazy Pete's hometown in West Michigan) to attend the ground-breaking of a new LG Chem-Compact Power battery factory offers a bittersweet lesson.

South Korea-based LG Chem is building the \$300-million, 650,000-square-foot battery plant in Holland that is set to start operating in 2012. LG Chem and its Troy-based subsidiary Compact Power are behind the battery system to power the Chevrolet Volt, the nation's first mass-market extended range plug-in electric vehicle, which will launch later this year.

LG Chem has received \$151.4 million in grants from the Department of Energy for its Holland plant.

The factory, which will be able to make 15 million to 20 million battery cells a year, is one of at least five battery plants built in Michigan. Johnson

Controls, through its joint venture with French battery company Saft, also is converting one of its existing factories in Holland into a lithium-ion battery plant.

No details were immediately released about the timing of the event and whether it will be open to the public.

The government has distributed more than \$2 billion in grant money to advanced battery manufacturing to create a base for high-tech battery making in the United States.

Today, most of the world's advanced batteries come from Korea, Japan and China.

Last month, the groundbreaking of Dow Kokam's advanced battery plant in Midland attracted Vice President Joe Biden.

The preliminary coverage of the event has noted how unusual it is for a President to attend the groundbreaking for what is effectively a foreign firm. (h/t Leen) Yet no one—at least as far as I've seen—has faulted the White House decision to attend. That's because, here in MI, we're desperate for the jobs. And even those outside of MI point to battery technology as one of the many technologies in which the US lags—at its great cost.

There's even a big benefit to the auto industry: in my meetings with GM on the Volt, they told me they'll save \$200 per car in battery shipping costs once they can source locally. It's one of the places GM anticipates beginning, over time, to bring production costs down so the Volt and related follow-on cars will one day be profitable.

But the opening of these battery factories in the US should be read in tandem with this excellent article from Intel founder Andy Grove.

Grove's article focuses on our inability to scale new technologies.

Clearly, the great Silicon Valley innovation machine hasn't been creating many jobs of late – unless you are counting Asia, where American technology companies have been adding jobs like mad for years.

The underlying problem isn't simply lower Asian costs. It's our own misplaced faith in the power of startups to create U.S. jobs. Americans love the idea of the guys in the garage inventing something that changes the world. New York Times columnist Thomas L. Friedman recently encapsulated this view in a piece called "Start-Ups, Not Bailouts." His argument: Let tired old companies that do commodity manufacturing die if they have to. If Washington really wants to create jobs, he wrote, it should back startups.

Mythical Moment

Friedman is wrong. Startups are a wonderful thing, but they cannot by themselves increase tech employment. Equally important is what comes after that mythical moment of creation in the garage, as technology goes from prototype to mass production. This is the phase where companies scale up. They work out design details, figure out how to make things affordably, build factories, and hire people by the thousands. Scaling is hard work but necessary to make innovation matter.

The scaling process is no longer happening in the U.S. And as long as that's the case, plowing capital into young companies that build their factories elsewhere will continue to yield a bad return in terms of American jobs.

Grove uses advanced battery technology as one example to show the problem with shipping all US manufacturing overseas because it no longer invests in scaling up new technologies. When we shipped our electronics production overseas, we shipped with it the evolving technology tied to it, which eventually included the all-important battery technology.

With some technologies, both scaling and innovation take place overseas. Such is the case with advanced batteries. It has taken years and many false starts, but finally we are about to witness mass-produced electric cars and trucks. They all rely on lithium-ion batteries. What microprocessors are to computing, batteries are to electric vehicles. Unlike with microprocessors, the U.S. share of lithium-ion battery production is tiny.

That's a problem. A new industry needs an effective ecosystem in which technology knowhow accumulates, experience builds on experience, and close relationships develop between supplier and customer. The U.S. lost its lead in batteries 30 years ago when it stopped making consumer-electronics devices. Whoever made batteries then gained the exposure and relationships needed to learn to supply batteries for the more demanding laptop PC market, and after that, for the even more demanding automobile market. U.S. companies didn't participate in the first phase and consequently weren't in the running for all that followed. I doubt they will ever catch up.

So here we are today (or more accurately, Thursday) with the President celebrating the opening of a new factory—almost entirely subsidized by the state and federal government—owned by a foreign company.

Mind you, given both the employment and technological urgency, I'm not complaining. Inviting foreign companies and their superior technology into the country is how China has fast-tracked its auto industry, for example.

But I'm also aware that we need to be doing this proactively, not just reactively. And we need to invest in other technologies. I'm acutely aware that the plan Obama has laid out for Gulf recovery includes neither an industry to replace fishing (or drilling) until the Gulf recovers, nor a ready app like battery technology that the government can use as a hook for investment. I'm also aware that NV—which passed MI in unemployment rate for the first time last month—not only has no such industry (frankly, NV probably still is tops in the world in excessive tourism), but no one is even talking about looking for such an investment!

We're finally doing what we need to do to play catch up in one of our base industries. At the same time, we need to be thinking of how to use government investment to help NV and the Gulf and—at the same time—restore American competitiveness.