

HOW MUCH DID THE 2009 AUTOMOTIVE BAILOUT COST TAXPAYERS?

\$3.7 BILLION
(CANADA) **AND**
\$16.6 BILLION
(UNITED STATES)



By Mark Milke

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ABOUT THE CANADIAN TAXPAYERS FEDERATION



The Canadian Taxpayers Federation (CTF) is a federally incorporated, not-for-profit citizens' group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has 84,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians and organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and Action Updates. Financial supporters can additionally receive the CTF's flagship publication, The Taxpayer magazine, published four times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2014 the CTF raised \$4.2 million on the strength of 23,526 donations. Donations to the CTF are not tax deductible as a charitable contribution.

BACKGROUND TO THE BAILOUT

Think back to the financial crisis of 2008 and 2009 and in particular just before Christmas 2008. That's when American and Canadian governments announced a series of "stimulus" packages for the North American automotive industry. Then-president George W. Bush announced that automakers would receive \$17.4 billion U.S. . Bush announced the aid despite congressional rejection of a bailout package; the money would instead come from the already-authorized \$700-billion fund set up to rescue or provide bridge financing to the financial sector

In Canada, Christmas also came early that year for Canada's automotive sector. The federal and Ontario governments promised billions of dollars in loans for the automotive sector, which began to be disbursed in the spring of 2009. Prime Minister Stephen Harper said earlier, in late 2008, that the loans were a "regrettable but necessary step to protect the Canadian economy."

But the majority of the public did not agree. A poll in late December 2008 found that 58% of Canadians were opposed to the bailout with 69% of Albertans in opposition, followed by majorities in Atlantic Canada (66%), Saskatchewan and Manitoba (65%), Quebec (63%) and British Columbia (62%). It was only in Ontario, ground zero for the auto sector, where a majority supported the bailout, and even there it only had 52% support.

As I wrote in early 2009, "the record of government subsidies in the form of loans to business, never mind those in trouble in the midst of a recession, is poor." I wish my prediction had been wrong. Instead, it turned out almost as I forecast.

Canadian and American governments sent tens of billions of taxpayer dollars to Chrysler, General Motors and a few related entities and suppliers. (Note: all dollar figures cited are in local currencies, i.e., Canadian dollars for Canadian loans and repayments and American dollars for American loans and repayments; given the various and multiple dates that money was disbursed and repaid, the exchange rate fluctuations make a Canadian dollar-only or US dollar total problematic.)

TRANSPARENCY ABSENT IN CANADA

In the United States, when Congress authorized the loans a critical requirement accompanied the bailout: transparency. The Treasury Department was required to regularly report to Congress and to the taxpaying public, once a month as it turned out. Thus, when the Troubled Asset Relief Program (TARP) got going in 2008, and began doling out tax dollars, the public and Congress would at least know 1) where the money was going and 2) as it was being repaid, how much was returning to the federal treasury.

In Canada, no such mechanism for transparency was put in place. So far as I know, everyone in the media and in the opposition parties (most of whom were demanding the federal government "do something" and spend more) couldn't be bothered to ask two simple questions: How much money had been disbursed in Canada's version of TARP (tax dollars that went solely to the automotive sector)? And second, how much has been paid back?

Unlike the US, Canada's federal government under Prime Minister Harper and the Ontario government under premiers Dalton McGuinty and then Kathleen Wynne provided no proactive transparency for taxpayers.

Instead, over the years the federal finance ministry and Ontario governments would only announce repayments from General Motors and Chrysler on an ad hoc basis, and bizarrely and unfortunately, much of the media blithely reported the official political pronouncements as if they were accurate or full disclosure.

That was not the case. For example, at a May 30, 2011 media briefing in Toronto, then-finance minister Jim Flaherty, accompanied by Chrysler-Fiat CEO Sergio Marchionne, announced that "I welcome Chrysler's decision of course to repay their outstanding loans which they did at the end of last week."

One had to parse the finance minister's words carefully. As it turned out, "outstanding loans" did not mean all loans to

Chrysler. As part of the Chrysler reorganization in the spring of 2009, \$1.3 billion (of the eventual \$2.9 billion in total) had been loaned to "old" Chrysler (Chrysler LLC), which disappeared when the company emerged from bankruptcy protection on June 10, 2009. It was to this latter entity -- the "new" Chrysler (Chrysler Group LLC) -- that Flaherty was referring when he gave the misleading impression that Chrysler had paid back all its taxpayer-financed loans.

Based on that press conference, much of the media wrote headlines that Chrysler had repaid all its loans. The public thus got the impression everything that had been delivered to Chrysler courtesy of taxpayers had been paid back.

This is an impression that could have been avoided had the federal Finance Department published regular reports, starting in 2008, stating how much had been lent out to the automotive companies and how much had been paid back. Instead, researchers such as me were forced to contact finance and ask for clarification and updated numbers, which I did annually. Even then, no spreadsheet summaries were provided; all that came back were e-mails with numbers that one had to calculate oneself. It was all in stark contrast to TARP reporting by the American Treasury Department.

A CHRISTMAS SURPRISE: WINTRY “TRANSPARENCY”

Eventually, in the fall of 2014, the federal auditor general rapped the knuckles of the Harper government. “There was no comprehensive reporting of the information to Parliament” noted a Fall 2014 report on the matter. At the time of the report, Industry Canada, which often handles much of the federal loans and grants to businesses in Canada, promised to report on the matter to Canadians before the end of 2014; that was five years after the first loans to Chrysler and General Motors were made by the federal and Ontario governments.

Industry did release a nine-page document, on Dec. 19, 2014 – six days before Christmas. It contained much of what I had seen in e-mails from the Finance Department but which the public and media had never seen before. They would have only seen some of the numbers in my columns over the years, where I tried to shine a light on a \$13,700,000,000 taxpayer bailout.

THE INITIAL LOANS, REPAYMENTS AND LOSSES

Beyond the lack of transparency in Canada, what were the real, hard numbers? Here’s what we know, using the December 2014 Industry Canada document and Finance Department replies,

including one updated in July 2015 which finally provided a one-page summary after that department also contacted the Ontario government to finalize all numbers.

In Canada:

- The “old” and “new” Chrysler companies sought and received \$2.9 billion from the federal and Ontario governments which was converted into a 2% equity stake (in the “new”, post-bankruptcy Chrysler). Just over \$2 billion would eventually be recouped, mostly via repayments, some interest payments and a minor amount of stock sales, resulting in an approximately \$870-million permanent loss to taxpayers.
- General Motors received \$10.8 billion with an 11.7% equity stake for the federal and Ontario governments (the initial loans and repayments were split by the two governments two-thirds and one-third respectively). Over the years, the two governments received \$8 billion via stock sales, repayments and interest, which left taxpayers with a \$2.8-billion loss.
- In total then, Canadian taxpayers are out almost \$3.7 billion, not accounting for inflation or lost opportunities. For example, that \$3.7 billion could have built a new subway line or two in Toronto or twinned a substantial portion of the Trans-Canada Highway in British Columbia.

Chrysler + Disbursements and Recoveries — Canada

Figure 1

Entity	Amounts (Can \$ Billions)
Disbursements	
Chrysler LLC (Old Chrysler)	1.3
Chrysler Group LLC (New Chrysler)	1.6
Total disbursed	2.90
Recoveries	
Chrysler Group LLC (principal repayment)	1.6
Chrysler LLC and Chrysler Group LLC (interest payments)	0.3
Proceeds relating to sale of Chrysler membership interests)	0.132
Total disbursed	2.03
Total Loss*	-0.87

Source: Industry Canada December 2014

2008-2009 Chrysler & GM bailout losses for Canadian taxpayers

Figure 2

	Total Loaned	Repaid	Total Estimated Loss (Can \$ Billions)
General Motors	10.80	8.00	-2.80
Chrysler	2.90	2.03	-0.87
Toal Loss	13.70	10.00	-3.7

Sources: Industry Canada December 2014; Auditor General of Canada 2014; Finance Canada 2015.

GM Disbursements and Recoveries — Canada*

Entity	Amounts (Can \$ Billions)
Disbursements	
General Motors Corporation (Old GM)	3.5
General Motors Company (New GM)	4.5
General Motors of Canada Limited	2.8
Total disbursed	10.8
Recoveries-Realized before Industry Canada report December 2014	
GM Loan Repayment (interest and principal)	1.6
November 2010 IPO Gross Proceeds	1.2
September 2013 Bloca Trade Proceeds	1.1
Preferred Share Dividend Repayments	0.19
Common Share Dividend Repayments	0.11
Motors Liquidation (MLC) Loan Repayments	0.03
Sub-total realized	4.23
Recoveries after Industry Canada report	
Common shares	3.3
Preferred shares	0.46
Dividend	0.01
Sub-total	3.77
Total Loss	-2.80

Figure 3

Sources: Industry Canada December 2014 and Finance Canada, 2015

*Includes loans and repayments made by the federal and Ontario governments.

Of course, Canada was not the only country lending taxpayer dollars to GM and Chrysler in the 2008-09 financial crisis. Here is the US breakdown as of mid-2015, thanks to that country's more transparent TARP (and again selected numbers are rounded).

In the United States:

- The “old” and “new” Chrysler companies were loaned just under \$12 billion from the federal and Ontario governments with just over \$9 billion recouped, resulting in a \$2.92-billion loss.
- General Motors received \$49.5 billion, repaid \$38.3 billion, which left taxpayers an \$11.2-billion loss.
- Other automotive-related entities received \$18.3 billion and repaid \$15.2 billion, a \$2.5-billion loss.
- In total, American taxpayers are out \$16.6 billion as of mid-2015.

Automotive sector bailout losses for American taxpayers

Entity	Amounts (U.S. \$ Billions)	
<i>Disbursements</i>		
GM	49.50	
Chrysler	11.96	
Ally (GMAC)	17.20	
Warranty and suppliers	1.10	
Total disbursed	79.1	
<i>recoveries</i>		
GM	38.3	-11.20
Chrysler	9.04	-2.92
Ally (GMAC)	14.7	-2.5
Warranty and suppliers	1.1	0.0
Total disbursed	63.1	
Total Loss for American Taxpayers*		-16.6

Source: U.S. Department of Treasury 2015

Figure 4

THE SHORT SUMMARY: US\$16.6 BILLION LOST IN UNITED STATES/ CAN\$3.7 BILLION IN CANADA

The American federal government lent the various automotive sector companies \$79.7 billion and saw \$63.1 billion in repayments, share sales, interest and dividend payments, for a US\$16.6-billion loss.

In Canada, the federal and Ontario governments lent automakers \$13.7 billion and recouped \$10 billion in repayments, interest, share sales and dividend payments, for a CAN\$3.7-billion loss.

Figure 5

Automotive sector bailout losses for U.S. and Canadian taxpayers

	Total Estimated Loans	Total Estimated Repayments	Total Estimated Net Losses
Canada (in billions, Can\$)	13.7	10.0	-3.7
United States (in billions, US\$)	79.7	63.1	-16.6

LONG AT THE TROUGH

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HOW MANY TIMES CAN A COMPANY BE TOO BIG TO FAIL?

There are plenty of excellent reasons not to grant or loan money to any company but instead to let companies compete, rise, fall and rise again in a competitive marketplace for consumers. Many of the claims that provide the political “cover” for corporate welfare -- extra economic growth, an increase in employment, more tax dollars to some local government -- are often a mirage.

One expert on such subsidies, Heinz University Professor Terry Buss, has noted that government and industry studies that argue for the supposed beneficial effects of corporate welfare often fail to account for the substitution effect. That is where “gains” to one region are necessarily offset by losses elsewhere -- such as layoffs at a competitor’s plant or reduced tax revenues to a government somewhere else when a facility is shuttered due to increased competition from a taxpayer-financed competitor. In short, subsidies to businesses -- including when they survive -- are a shell game where money is transferred around; the practice is not a net gain to the economy.

Employment levels at the two companies in 2015 were 10,000 at General Motors and 9,000 at Chrysler, or 19,000 in total. That compares with 2008 employment levels of 12,500 at General Motors and 8,400 at Chrysler, or 20,900 in total. On a wider comparison, the auditor general’s 2014 report on the matter noted that total employment in the manufacturers and parts suppliers sector amounted to 152,000 people in 2007 and 117,000 people in 2013.

For the record, the 2008-2009 automotive bailouts were not the first. For Chrysler, this was its second taxpayer-funded bailout (the first was in 1979). Corporate welfare is the ultimate evasion of responsibility. It helps companies avoid the consequences that consumers would otherwise assign to a company, an evasion demonstrated rather clearly by Chrysler’s two government bailouts in three decades. That was an expensive, \$3.7-billion lesson for Canadian consumers and taxpayers and a \$16.6-billion lesson for Americans.

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