Congressional Oversight Panel Examines TARP Support for the U.S. Auto Industry

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For Immediate Release

Taxpayers Now Appear Likely to Recover Billions More Than First Expected, but Conflicting Goals Have Impaired Accountability and Moral Hazard Lingers

WASHINGTON, D.C. - The Congressional Oversight Panel today released its January oversight report, "An Update on TARP Support for the Domestic Automotive Industry." The Panel finds that, although it remains too early to tell whether Treasury's intervention in the U.S. automotive industry will prove successful, the government's ambitious actions appear to be on a promising course. Even so, the companies that received automotive bailout funds continue to face uncertain futures, taxpayers remain at financial risk, concerns remain about the transparency and accountability of Treasury's efforts, and moral hazard lingers as a long-run threat to the automotive industry and the broader economy.

Since the Panel last reviewed the bailout of the domestic auto industry, the financial state of taxpayers' investments has improved starkly. At the time of the Panel's last comprehensive report on TARP automotive programs in September 2009, the Congressional Budget Office (CBO) estimated that taxpayers would lose $40 billion in the automotive industry. Today, CBO has reduced its loss estimate to $19 billion, and the three largest recipients of automotive bailout funds -- General Motors (GM), Chrysler, and GMAC/Ally Financial -- all appear to be on the path to financial stability.

In each of its automotive bailouts, Treasury's goal of recovering taxpayer money has conflicted with its stance as a reluctant, "hands off" shareholder. With GM, Treasury sold 40% of its stake in the company very early, when the share price was 26% lower than needed to recover taxpayers' investment in full. With Chrysler, Treasury sold its position in Chrysler Financial so hastily that it may not have performed basic due diligence and may have left money on the table. With GMAC/Ally Financial, Treasury has maintained its position as a "hands off" shareholder even at the expense of profitability -- for example, by declining to urge GM to consider repurchasing GMAC/Ally Financial. In all of these cases, Treasury's decisions may well have been reasonable, but they illustrate the inherent conflicts in Treasury's stated goals for its automotive intervention. Virtually any action may be defended as either improving taxpayers' returns or maintaining a "hands off" approach, and as a result, it is difficult for any outside observer to judge whether Treasury's results in fact qualify as successful.

Treasury is now on course to recover the majority of its automotive investments within the next few years, but the impact of its actions will reverberate for much longer. Treasury's rescue suggested that any large American corporation -- even if it is not a bank -- may be considered "too big to fail" if its collapse would eliminate enough jobs and wreak enough economic damage. As a result, the automotive rescue creates a risk that moral hazard will infect areas of the economy far beyond the financial system. Further, the fact that the government helped absorb the consequences of GM's and Chrysler's failures has put more competently managed automotive companies at a disadvantage. For these reasons, the effects of Treasury's intervention will linger long after taxpayers have sold their last share of stock in the automotive industry.

The full report is available at cop.senate.gov.

The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are former Senator Ted Kaufman; J. Mark McWatters; Richard H. Neiman, Superintendent of Banks for the State of New York; Damon Silvers, Policy Director and Special Counsel for the AFL-CIO; and Kenneth Troske, William B. Sturgill Professor of Economics at the University of Kentucky.