

A Failed Rescue: A Critique of the General Motors and Chrysler TARP Bailouts

Asher Boeckstein

Austrian Student Scholars Conference

Dr. Jeffrey Herbener

January 29, 2026

Before the financial crisis of 2008, the “big three” auto companies of Michigan (Ford, General Motors, and Chrysler) were already struggling (Goolsbee and Krueger 2015). But when the Great Recession hit, as American consumers began buying fewer new cars, things looked especially bleak for these companies, especially General Motors (GM) and Chrysler, who looked like they were on the verge of bankruptcy. Worried about the potential for massive job losses and the collapse of America's industrial supply chain, the Bush and Obama administrations stepped in with a massive infusion of taxpayer funds from the Troubled Asset Relief Program (TARP) (CBO 2011). TARP was originally a fund authorized by Congress to stabilize financial institutions, not manufacturers, but President Bush sidestepped Congress and his successor continued to push for these bailouts (Zywicki 2011). Proponents of the intervention have typically framed the auto bailout as a resounding success that “saved” the American auto industry and prevented a depression in the industrial Midwest (Zywicki 2011). However, these bailouts failed by nearly every economic measure and were not successful in meaningfully protecting American manufacturing or preventing Detroit’s bankruptcy in 2013 (Khimmm 2013).

With a close look at the financial data and fifteen years of hindsight, we see a completely different picture from the traditional narrative. Instead of a triumphant rescue of American manufacturing, the auto bailouts were actually a catastrophic policy failure. First, the intervention cost taxpayers billions of dollars in unrecovered funds. These losses were mostly to subsidize the compensation packages of the United Auto Workers (UAW) union, instead of modernizing or restructuring the companies to put them in a healthier position (Zywicki and Sherk 2012). Furthermore, these government-orchestrated bankruptcies were highly politically motivated, and arguably broke the law. The procedure violated the “absolute priority rule” of chapter 11 bankruptcy, and propped up political constituents at the expense of taxpayers and

lenders (Zywicki and Sherk 2012). Most frustrating of all, the bailout did not even succeed at its original purpose of preserving domestic production of the “American car.” In the years following the bailout, the corporations who received the bailouts have essentially abandoned the domestic sedan market, instead shifting production to trucks and SUVs. The entire thesis of the bailouts was to prevent vehicle manufacturing offshoring to Mexico and China but this is exactly what happened anyway (Perrone 2017; Grieve 2024).

The leaders who claimed that the bailouts were a success insisted that they saved 1.5 million jobs (Reuters 2013), but this claim is exaggerated to the point of outright falsehood. The 1.5 million number assumes that a non-government bankruptcy would have resulted in not only GM and Chrysler shutting down for good, but also other companies like Ford, foreign businesses like Toyota and Honda, as well as part suppliers and supporting companies for the car industry (Grossman 2012). Obviously, these other companies would not have closed down for good, and it is ridiculous to pretend that the bailouts prevented job losses for employees of companies that did not even receive a handout. Even assuming that its bailouts did preserve some jobs, the Administration cannot take credit for the jobs created by the recipients’ competitors.

Proponents of the bailouts also argued that the government recovered the majority of its investment. However, the official data from the Congressional Budget Office actually contradicts this (CBO 2011). The U.S. Treasury provided approximately \$50.2 billion in aid to General Motors alone (Canis and Webel 2014). Upon the final sale of GM stock in December 2013, the government realized a principal loss of \$11.2 billion (CBO 2011). Even after accounting for dividends and interest income, the Treasury recorded a net loss of \$10.5 billion on GM. Similarly, the Treasury realized a \$2.9 billion loss on its assistance to Chrysler (Canis and Webel

2014). Total estimates for the cost of the auto bailout to taxpayers range from \$14.7 billion to as high as \$23 billion, depending on the timing of the valuation (Zywicki and Sherk 2012).

These losses were not the inevitable price of saving the industry. Rather, they were the price of political favoritism. According to experts at the Wall Street Journal, the bailout was less of an industrial rescue and more a “UAW handout” (Sherk and Zywicki 2012). In a standard bankruptcy, labor contracts are normally renegotiated to align with what the market can afford. However, the administration’s intervention shielded UAW from the consequences that usually come with restructuring (O’Toole 2012). While new hires were subject to lower wages, existing UAW members at GM kept their compensation rates of approximately \$56 per hour—significantly higher than the \$47 per hour average at other competitors operating in the U.S. (Zywicki and Sherk 2012). This was essentially a forced distribution of wealth from taxpayers and lenders to union members already making extremely comfortable wages. According to the Wall Street Journal, The UAW received approximately \$26.5 billion more in value than they would have under standard bankruptcy rules (Zywicki and Sherk 2012). Had the UAW been treated with the same legal priority as other unsecured creditors, like bondholders or suppliers, the U.S. Treasury could actually have recouped its entire investment, but it did not because of political pressure.

Beyond just the direct financial cost, these bailouts inflicted long-term serious damage to the economy by eroding the rule of law and cheating stakeholders. As F.A. Hayek argued, for business to function properly, laws must be “bound by rules fixed and announced beforehand—rules which make it possible to foresee with fair certainty how the authority will use its coercive powers in given circumstances and to plan one’s individual affairs on the basis of this knowledge” (Hayek, 1944). However, instead of adhering to this principle, the

administration used the bailout to pick “winners and losers” in the economy and further their own agenda. The restructuring of Chrysler and GM was orchestrated through a Section 363 sale, which was a mechanism that allowed the government to push through a reorganization plan disguised as an asset sale, denying creditors their standard rights to vote on the plan (Zywicki 2011). This meant the government overrode the opportunity for decisions to be made by the people who would have incentive to fix the problems these companies had.

The process violated the “absolute priority rule,” a cornerstone of American bankruptcy law, which says that secured creditors *must be paid in full* before unsecured creditors receive anything (Fournier et al. 2024). In the case of Chrysler, secured bondholders (investors who held the business’s debt) were forced to accept just twenty-nine cents on the dollar (Zywicki and Sherk 2012). That is a loss of seventy one percent! Meanwhile, the UAW’s retiree trust, an unsecured creditor which should have received nothing until secured creditors were paid first, recovered almost all of the value of its claims. This politicized inversion of priority rights created a dangerous precedent, and it signaled to the market that property rights and contract law are not absolute in politically motivated situations (Ikenson 2011).

This breach of status quo was so profound that “Government Motors” became a term used to describe extreme political interference in business operations (Horsley 2009). The Obama administration fired GM’s CEO, appointed most of the board of directors, and pressured the company into business decisions because of politics instead of economic logic (Zywicki 2011). For example, congressional pressure forced GM to reverse decisions to close dealerships in specific districts and to keep expensive suppliers in the home states of influential senators. This undermined the cost-cutting efficiency that bankruptcy is supposed to achieve in the first place (Zywicki 2011). By rescuing failing firms and insulating their unionized workforce from

market realities, the government essentially taxed healthier competitors (like Ford and Honda) to subsidize their weaker rivals (Ikenson 2009). This distorted market signals, and encouraged unwise risk-taking by large corporations under the assumption that they are “too big to fail” (Ikenson 2010).

One of the main justifications for the bailout was that this was supposed to preserve a domestic industry which would be able to produce the next generation of fuel-efficient vehicles in America. In 2009, President Obama promised, “I’m confident that the steps I’m announcing today will mark the end of an old GM, and the beginning of a new GM; a new GM that can produce the high-quality, safe, and fuel-efficient cars of tomorrow; that can lead America towards an energy independent future; and that is once more a symbol of America’s success (Neuman 2009).” But years of hindsight later, we know that this had the exact opposite outcome. As of 2026, the American sedan has been essentially abandoned (Kwon 2025).

Because of this bailout, Detroit automakers used their clean balance sheets not to innovate in the fuel efficient market, but to double down on high-margin trucks and SUVs (Jack Fitzgerald 2024). This was something that Ford was already starting to do before the great recession; it was because of these cost-cutting measures that it avoided bailouts unlike the other two. By 2024, traditional cars accounted for only 19% of new vehicles, a record low. Meanwhile, SUV sales were at an all-time high (58%) (Grieve 2024). Ford, for instance, has discontinued all traditional passenger cars in the North American market, with the sole exception of Mustang. GM followed suit, discontinuing the Chevy Malibu in November 2024, leaving it with zero traditional sedans in its lineup (Fitzgerald 2024). This decline in the domestic sedan market was a result of changing consumer tastes and a consequence of regulatory distorted incentives. The

result is a domestic auto industry that produces almost no actual “cars” for American consumers, with that entire market segment being given up to foreign competitors (Grieve 2024).

This happened for two main reasons. First, the administration showed it was fundamentally naive about its own regulations. While the bailout was sold on the promise of a fleet of fuel-efficient passenger cars, the government's own CAFE (Corporate Average Fuel Economy) standards ironically incentivized the production of larger vehicles. Because of legislation written in the 70s, larger trucks and SUVs have much easier efficiency targets than smaller cars (Djekic 2024). Because of this loophole, the rational economic move for GM was not to innovate in the difficult small car segment, but to double down on the heavy vehicles that were easier to comply with.

Second, the bailout failed to address the supply-side constraints that made producing small cars economically unviable for the Big Three in the United States. It was not that American consumers stopped buying sedans entirely. Foreign manufacturers like Toyota and Honda continue to sell models like the Camry and Accord. Instead, the domestic automakers abandoned this segment because the bailout preserved inefficient cost systems that made low-margin vehicles impossible to produce profitably. By keeping UAW wages artificially high relative to the market, these companies' labor costs forced them to produce only high-margin luxury and truck segments just to cover their costs (Hawkins 2025).

Probably the most ironic part of the bailout is that while it was sold as a way to save American jobs, it actually accelerated the offshoring of domestic manufacturing work. Since the bailout, Mexico's share of North American vehicle production has risen dramatically, growing from 19% in 2012 to 26% in 2024 (Haar and Porras 2025; Statista 2025). While the bailout preserved GM and Chrysler as corporate entities, it did not do anything to actually guarantee

production stayed on American soil long-term. In fact, foreign automakers like Toyota and Honda expanded their U.S. employment footprints during periods when the Detroit Three were shrinking their domestic workforces (Goolsbee and Krueger 2015).

The shift is not limited to Mexico. In 2017, Ford decided to move production of the Focus (the type of small fuel-efficient car the bailout was supposed to save) to China (Perrone 2017). China has since become a major hub for automotive investment, with Chinese investment in Mexico's auto sector surging 77% in recent years, which brought the supply chain even further from the U.S. industrial base (Perrone 2017).

Ironically, Chrysler is no longer even an American company anymore. While the bailout was sold to the public as a patriotic duty to save an American industry, the government contract actually required Chrysler to be sold to Italian automaker Fiat (Clark 2009). Unlike a standard market transaction, Fiat was not required to pay cash for its initial 20% stake (Kouwe 2009). Instead, it was granted equity in exchange for intellectual property and the promise of small-car technology that never became a reality. Fiat merged with Groupe PSA to become Stellantis, which means that American taxpayers spent billions to "save" an iconic Michigan company, only for it to become a subsidiary of a European conglomerate (Stellantis 2021).

The narrative that the TARP bailouts of General Motors and Chrysler were a triumph forces you to ignore the billions in taxpayer and creditor losses, the legal precedent of government interference in the market, and the eventual evaporation of domestic sedan production. The intervention was not economic rescue, but a political transfer of wealth (O'Toole 2012). The Obama administration redistributed approximately \$26.5 billion to the UAW, which shielded the union from the sacrifices that bankruptcy normally means to unsecured creditors (Zywicki 2011). Furthermore, the bailout preserved inefficient firms that have since continued to

lose market share in the years since. GM's market share has continued its downward trend after the bailout, falling from 19.6% in 2009 to 17.9% by 2013 (Goolsbee and Krueger 2015; Canis and Webel 2014). The companies survived, but the industry they now comprise is not the one that politicians promised to taxpayers. The big three are no longer mass-market producers of affordable American cars, instead becoming producers of expensive, inefficient trucks and SUVs, with production increasingly offshored.

Like one critic said at the time, calling the bailout a success because GM is currently profitable is “like applauding the recovery of a drunken driver, while ignoring the condition of the family he severely maimed” (Ikenson 2011). The drunk drivers, General Motors and Chrysler, made bad business decisions in the years leading up to the great recession and needed serious internal restructuring, not a bandaid solution. The “family” in this analogy is the bondholders who were stripped of their property rights, the taxpayers who lost billions, and the working class American consumer, for whom the Detroit auto industry no longer makes cars.

References

- Canis, Bill, and Baird Webel. 2014. *The Role of TARP Assistance in the Restructuring of General Motors*. Congress.gov. <https://www.congress.gov/crs-product/R41978>.
- CBO. 2011. *Report on the Troubled Asset Relief Program*. Congressional Budget Office. https://www.cbo.gov/sites/default/files/cbofiles/attachments/12-16-TARP_report.pdf.
- Clark, Andrew. 2009. "Chrysler's Sale to Fiat Completed." Business. *The Guardian*, June 10. <https://www.theguardian.com/business/2009/jun/10/fiat-takes-over-chrysler>.
- Djekic, Petar. 2024. "The Unchecked Rise of Trucks and SUVs in America." *Cornell Journal of Law and Public Policy*, November 25. <https://publications.lawschool.cornell.edu/jlpp/2024/11/25/the-unchecked-rise-of-trucks-and-suvs-in-america/>.
- Fournier, David M., Evelyn J. Meltzer, Kenneth A. Listwak, and Tori Lynn Remington. 2024. *What Is the Absolute Priority Rule and How Does It Affect Payment on My Claim In Chapter 11 Bankruptcy? - Troutman Pepper Locke*. Articles + Publications. January 23. <https://www.troutman.com/insights/what-is-the-absolute-priority-rule-and-how-does-it-affect-payment-on-my-claim-in-chapter-11-bankruptcy/>.
- Goolsbee, Austan D., and Alan B. Krueger. 2015. "A Retrospective Look at Rescuing and Restructuring General Motors and Chrysler." Working Paper No. 21000. Working Paper Series. National Bureau of Economic Research, March. <https://doi.org/10.3386/w21000>.
- Grieve, Pete. 2024. "Most New Cars for Sale Today Aren't 'Cars' at All." Money, November 27. <https://money.com/fewer-cars-more-suvs-trucks-trend/>.
- Haar, Jerry, and Eric Porras. 2025. "Rewiring the Road Ahead: Mexico Shapes U.S. Automotive Future." *Baratta Center for Global Business Education*. <https://globalbusiness.georgetown.edu/researchandinsights/global-perspectives-blog/rewiring-the-road-ahead-how-mexico-continues-to-shape-north-americas-automotive-future/>.
- Hawkins, Andrew J. 2025. "How Big Trucks and SUVs Gobbled up the Entire Auto Industry." The Verge, August 10. <https://www.theverge.com/the-stepback-newsletter/756967/giant-trucks-suvs-car-bloat>.
- Hayek, F. A. 1944. *The Road to Serfdom*. University of Chicago Press.
- Horsley, Scott. 2009. "Does GM Stand For Government Motors?" Auto Industry In Turmoil. *NPR*, June 2. <https://www.npr.org/2009/06/02/104813679/does-gm-stand-for-government-motors>.
- Ikenson, Daniel J. 2009. *Hard Lessons from the Auto Bailouts*. Vol. XXXI No. 6. Cato Policy Report. Cato Institute. <https://www.cato.org/policy-report/november/december-2009/hard-lessons-auto-bailouts>.

- Ikenson, Daniel J. 2010. "The GM 'Turnaround' in Bastiat's View." *Cato Institute*, November 17. <https://www.cato.org/blog/gm-turnaround-bastiats-view>.
- Ikenson, Daniel J. 2011. "Bailouts Beget More Bailouts." *Cato Institute*, June 16. <https://www.cato.org/commentary/bailouts-beget-more-bailouts>.
- Jack Fitzgerald. 2024. "Chevrolet Is Killing Off the Malibu as Its Focus Shifts to EVs." *Car and Driver*, May 8. <https://www.caranddriver.com/news/a60734464/chevy-malibu-production-ending/>.
- Khimm, Suzy. 2013. "Why Didn't the Auto Bailout Save Detroit?" *NBC News*, July 19. <https://www.nbcnews.com/id/wbna52524437>.
- Kouwe, Zachery. 2009. "Chrysler Begins Voyage Down Bankruptcy Route." *Business. The New York Times*, May 1. <https://www.nytimes.com/2009/05/02/business/02hearing.html>.
- Kwon, Amos. 2025. "These Automakers No Longer Build Sedans. Is It a Missed Opportunity or Smart Strategy?" *Autoblog*, December 6. <https://www.autoblog.com/features/these-automakers-no-longer-build-sedans-is-it-a-miss-ed-opportunity-or-smart-strategy>.
- Neuman, Johanna. 2009. "Obama Promises Government Motors Won't Run General Motors (Full Text)." *Top of the Ticket. Los Angeles Times*, June 1. <https://www.latimes.com/archives/blogs/top-of-the-ticket/story/2009-06-01/opinion-obam-a-promises-government-motors-wont-run-general-motors-full-text>.
- O'Toole, Randal. 2012. "The Truth about the GM and Chrysler Bailouts." *Cato Institute*, September 6. <https://www.cato.org/blog/truth-about-gm-chrysler-bailouts>.
- Perrone, Alex. 2017. "Ford Decided To Move Focus Production To China." *Endurance Warranty*, July 25. <https://www.endurancewarranty.com/learning-center/news/ford-moves-focus-production-china/>.
- Reuters. 2013. "Auto Bailout Saved 1.5 Million U.S. Jobs -Study." *Reuters*, December 9. <https://www.reuters.com/article/business/auto-bailout-saved-15-million-us-jobs-study-idUSL1N0JO0XU/>.
- Sherk, James and Todd Zywicki. 2012. "Obama's United Auto Workers Bailout." *Opinion. Wall Street Journal*, June 13. <https://www.wsj.com/articles/SB10001424052702303768104577462650268680454>.
- Statista. 2025. "North American Vehicle Production by Country." *Statista*, April 16. <https://www.statista.com/statistics/204240/us-and-canada-and-mexico-vehicle-production/>.
- Stellantis. 2021. "The Merger of FCA and Groupe PSA Has Been Completed." *Stellantis.Com*, January 16.

<https://www.stellantis.com/en/news/press-releases/2021/january/the-merger-of-fca-and-groupe-psa-has-been-completed>.

Zywicki, Todd. 2011. "The Auto Bailout and the Rule of Law." *National Affairs*.

<https://www.nationalaffairs.com/publications/detail/the-auto-bailout-and-the-rule-of-law>.

Zywicki, Todd, and James Sherk. 2012. "Obama's United Auto Workers Bailout." *Mercatus Center*, June 14.

<https://www.mercatus.org/economic-insights/expert-commentary/obamas-united-auto-workers-bailout>.