Functions of the law

Business

In December 2008, General Motors Corp and Chrysler LLC received $13. 4 billion federal rescue package that was aimed at buying them some time to survive the economic recession. In return, these companies were required to produce a plan within three months, failure to which they would be required to repay the money. Ordinarily, they would find it very difficult to repay such a huge amount of money. Without a federal support, these two companies had indicated that they would be unable to continue with operations. According to the The wall street Journal, Failure by the federal government to give out the bailout package would have led to loss of millions of American jobs (3).

This is because one or more of these auto companies would have been liquidated. For this very reason, thousands of businesses that have formed linkages with these auto companies would also have killed. However, the companies should have prepared themselves for the difficult times ahead, the wayFordMotor Corp. did. This company indicated to the Senate Banking committee that it had a viable future system in place.

Therefore, it did need any federal financial assistance in order to sail through the tough times. The companies that were facing financial difficulties, chief among them General Motors and Chrysler PLL, ought to have put mechanisms similar to those of Ford Corp. but they did not. This is the reason why the federal government put the plan-creation requirement in place as one of the conditions to be fulfilled as part of the bailout package plan. Failure to launch the bailout plan would have spelt doom for the industry, which has provided America with 5 million jobs.

The industry also spends 12 billion every year in U. S for research and development every year. Additionally, the federal government felt obliged to play a key role as a key guardian of all the American taxpayers. The best way to play this role was to bail out the ineffectively-run companies ‘ now’ and to impose conditions on them, which they can implement ‘ later’, within a reasonable duration of 3 months. According to Lubben, GM’s top executives have come under sharp criticism for managing the company poorly, transforming it into an unviable company (12). The decision to bail out the auto industry players was supported by the United Auto Workers union.

However, the workers’ body expressed reservations at President Bush imposed unfair conditions that singled out auto workers. On his part, President Bush insisted that the elimination of ‘ job banks’ was intended to bring into being work and wage rules that are competitive with those of other foreign automakers. Under the ‘ jobs bank’ program, laid-off workers would receive supplemental pay and unemployment benefits from their respective companies for 48 weeks. If these workers remained laid off beyond this period they would move into the ‘ jobs bank’ whereby the company would be obliged to pay them about 95% of their pay plus benefits. Before the most recent contract was signed, laid-off employees would remain in this jobs bank for many years.

This financial assistance offered to auto companies became a reality when the U. S House of Representatives and Senate agreed approved the $700 billion bailout bill in October, 2008. The bill was expected to pave way for the U. S Department of Treasury to acquire all troubled securities in the hope of restoring liquidity and confidence to the country's markets. Automakers were fully in support of the bill because it would facilitate the acquisition of credit by themselves and all their financial units. These financial units were in dire need of funds in order to be able to issue loans to auto dealers and buyers.

In this regard, the bailout was aimed at benefiting not only the automakers but also the American public. The benefits came in the form of a $1 billion tax breaks for plug-in vehicle buyers and protection for bank deposits. One unique benefit would be the provision of tax credits ranging between $10, 000 and 15, 000 to all buyers of plug-in versions of heavy- and medium-duty trucks. Indications that all was not going well in the auto industry became noticeable as early as September, 2007. This was the 11th consecutive month during which auto sales had been declining.

It was also the first month during which a fall below one million units was recorded since 1993. According to Autodata Corp, the demand hit the lowest pace in 16 years. Every major automaker had posted lower selling rates. Additionally, all automakers exceptVolkswagenand Daimler suffered double-digit decline. General Motors seemed to be fairing the best among the three biggest OEMs, recording a 12% decline and managing to boost its market share for the same month to 29.

1%. The selling drop rate at Nissan, Ford and both Chrysler andToyotawas 34%, 31% and 30% respectively. More than one year since President Bush introduced the bailout plan, it is important to assess the foresight, if any, that motivated the decision by the former president by assessing its progress and benefits. The argument used to justify the bailout was that if the auto companies became bankrupt, no one would want to make a durable purchase from their premises.

Questions would arise about whether warranties on the purchases would be honored. Additionally, buyers would wonder whether the dealers would be available to offer service to the autos. Some people argue that since both General Motors and Chrysler declared bankruptcy anyway, the bailout plan was a failure. Brunel says that, in hindsight, one can easily reason that GM and Chrysler ought to have been allowed to go bankrupt in late 2008 (24). Perhaps, they would have managed to reorganize, shed most of their liabilities and transform themselves once again.

Perhaps they would have been forced to liquidate, handing their brands and factors to companies with the ability to make the best use of them. Ultimately, this is what has happened by Chrysler, which has been taken over by Fiat. The fate that befell GM was worse. The New York Times reports that after accepting the bailout money, GM CEO Rick Wagoner was forced out of the company’s leadership by President Obama (3). The United Auto Workers were given 17. 5% ownership stake in the restructured company.

According to bankruptcy law, company’s employees should not be given claims ahead of debt holders. Americans also expresses outrage at the precedent set by the president for influencing the decision to determine the CEO of a private company. The federal government has already seized 61% of the newly restructured GM, meaning that the government’s claims are ahead those of debt holders. Acharya observes that this is where GM’s story becomes a bitter one, since bondholders seem to have suffered in the hands of an inconsiderate federal government and a poorly managed private corporation (334). The federal government seems to have effectively nationalized the automaker since it is next to impossible for the company to pay back the loans provided by the Obama and Bush administrations. If this were possible, the company would untie the noose of the current ‘ government-owned company’ status.

If this was to happen, the bailout plan can be said to have been very necessary. If the bailout turns to be a complete failure, some explanation will be needed by the federal administration in order to prevent the action from becoming a public policy precedent.