

THE BRIDGE TO OBAMA

COLUMBUS DAY IS A holiday for government workers, but on Monday, October 13, 2008, the Treasury Department was frenetic. CEOs from nine of America's largest banks had been summoned by George Bush's Treasury secretary, Hank Paulson, for an afternoon meeting. Together they would be told that to preserve the financial system, each would be required to accept a multibillion-dollar infusion of public money from the Troubled Asset Relief Program (TARP). This intervention in the banks' business — the single most important step in the government's rescue of the financial industry — dominated the news.

Unknown to the world, another summit had taken place at Treasury that morning. General Motors, the second-largest industrial company of the largest economy on earth, was on the verge of bankruptcy and had come to the government, hat in hand. Had this become public knowledge, it would have grabbed more than a few headlines from the banks.

At 8:30 A.M., GM's CEO Rick Wagoner arrived at Paulson's office, accompanied by his chief financial officer and two carefully chosen members of the GM board, Erskine Bowles and John Bryan, both courtly southerners. Bowles had been chief of staff to President Clinton and was expert in the ways of Washington. Bryan, who had brokered the meeting, was Paulson's longtime friend.

What brought the GM team was money: the giant automaker was hemorrhaging cash. In the first quarter of 2008, \$3.5 billion had drained away. In the second quarter, the outflow was \$2.8 billion. Results for the third quarter, which had ended only two weeks before, were still unannounced — and horrendous. GM had burned through almost \$9 billion.

Time had run out on the last of Wagoner's many efforts at a turnaround. The program of selling assets to raise cash had almost reached the end. To try to conserve cash, there had been white-collar head-count reductions, elimination of health care for older white-collar retirees, elimination of executive bonuses, and suspension of the dividend. Privately Wagoner had weighed the merger with Chrysler—an opportunity for significant cost savings—but scuttled it as GM's crisis became too urgent for the benefits of a merger to have time to kick in. "I was trying to reduce brands. Why add Chrysler's?" he later explained to me.

Then, on October 3, GM recognized a potential godsend when Congress created the TARP at President Bush's behest. The program established a \$700 billion war chest for the Treasury to use in preventing a financial and economic collapse, of which fully half, \$350 billion, was at the immediate disposal of Paulson and his staff.

Understandably, Paulson this morning was focused on banks, not cars. Compared with the upheavals on Wall Street, the woes of General Motors seemed small beer. Paulson, a sixty-two-year-old former Eagle Scout from the Midwest, had survived twenty-seven remarkable months at Treasury, where he had arrived in the sixth year of an unpopular administration obsessed with global terrorism. No one had expected him to be able to accomplish much. Then, in 2007, the housing bubble burst. As the impact spread through the U.S. economy and the world financial system, Paulson became, inarguably, the most important member of the Bush administration.

Indefatigable and relentless, the former Goldman Sachs CEO juggled crises and crammed in cell-phone calls while striding between high-pressure meetings. He had little patience for ceremony or bureaucracy. When some of his former Goldman colleagues materialized at Treasury as "special advisers," there were bruised feelings among the career staff. But Paulson made no apologies and, as the problems worsened, seemed to become ever more blunt. In September he'd caused a furor with a curt three-page pitch to Congress requesting not only a staggering \$700 billion for TARP but also the authority to deploy it without review.

Still Wagoner, who had called twice in the past ten days, appeared convinced that his emergency deserved attention too. So Paulson had

shoehorned the automaker in before Federal Reserve Board Chairman Ben Bernanke, who was due at 10 A.M. to prepare for the meeting with the bankers. But the Treasury secretary had taken preemptive steps to keep the automakers off his department's crushing caseload. The White House, sympathetic to Paulson's burdens, had agreed to have Commerce Secretary Carlos Gutierrez greet the visitors with Paulson and serve as the administration's point man on GM.

In the back of Paulson's mind, snagging his attention at every turn, was a frightening scenario. He feared that the \$350 billion appropriated for TARP would be insufficient to shore up the financial system. The last thing he wanted was to divert rescue money to car companies. With liquidity short throughout the economy, he also worried that bailing out Detroit would entice other strapped companies to try to get on the federal dole too.

At 8:30 A.M., the GM delegation was ushered into Paulson's "small conference room," a modest, nondescript space less ornate and much smaller than the secretary's "large conference room," where the bank CEOs would gather later that day. As the GM visitors — outnumbered by Paulson, Gutierrez, and a half-dozen aides — took their places, John Bryan kicked things off with introductions. Then came Wagoner.

Leaning forward in his seat, the tall, stolid CEO explained matter-of-factly that without help, GM was likely to go bankrupt. That, he said, would almost certainly lead to the company's immediate liquidation, clearly an economic catastrophe. If GM factories locked their gates, suppliers and dealers all over America would fail in a terrible domino effect.

To explain the mess, Wagoner invoked the automakers' familiar litany of forces over which they had no control, specifically the rise in oil prices and the collapse of consumer confidence after the crises in housing and finance. He added a new reason for urgency, declaring that the end for GM might come as soon as Monday, November 3 — the day before the presidential election — when GM was scheduled to announce its grim third-quarter results. Also due on that date was a multibillion-dollar payment to suppliers that threatened to drain GM's cash below the minimum reserves needed to run the business. The company's precarious state, if revealed, would not only spook Wall Street, but also, he

warned, trigger “a run on the trade” by suppliers. Like panicked bank customers stampeding to withdraw their savings, the suppliers would cancel their credit and demand cash on delivery — money that GM simply wouldn’t be able to pay.

The implied threat was clear: Did the administration want voters waking up on Election Day to news that the nation’s largest manufacturer had gone bust? His alternative was \$10 billion of TARP money, a loan, for which GM would be willing to pay a generous interest rate and give the Treasury a 19.9 percent ownership stake.

Ray Young, GM’s chief financial officer, handed out a PowerPoint presentation to buttress the company’s case. (I would later learn that nothing at GM happens without PowerPoint.) To the practiced eyes of the two cabinet secretaries, the recovery plan supposedly justifying the \$10 billion loan was long on rosy predictions but short on facts and analysis. GM wanted to gamble taxpayer money on a vast, rapid rebound in auto sales as well as on gains in market share. Asked how he could be confident of such forecasts, Wagoner waxed eloquent about the new Chevy Malibu and GM’s gains in J. D. Power quality studies.

Gutierrez broke in to ask about bankruptcy. “Companies in your situation tend to pursue some form of reorganization,” he said. “Isn’t that something that could make sense here?”

No way, said Wagoner, shaking his head; bankruptcy would sink the business by scaring off customers. “You can’t sell cars to people under those circumstances,” he argued, holding firm when Gutierrez pushed a little more. Bankruptcy was not on the table.

After that, the federal officials remained largely silent, in part because Paulson had made it clear that he wanted the meeting kept short. Bryan, who hadn’t quite picked up the mood, jumped back in to emphasize, “This isn’t really a bailout, it’s a bridge loan and, as you can see, this company can pay it back.” Wagoner called attention to an appendix in the handout showing the importance of auto manufacturing, particularly in Ohio, Michigan, and Indiana. Across the United States, carmakers and their suppliers accounted for millions of jobs, 775,000 pensioners, and two million health care participants. A GM collapse would damage millions of lives.

Then Paulson spoke up, reminding the visitors that TARP was intended to stabilize the financial system, not bail out industrial compa-

nies. "You're not going to be able to use it," he said with certainty. "You will probably need to go to Congress." Finally he circled back to soften the message. "The White House cares greatly about this. Carlos is going to be working with you on the President's behalf."

A brief silence following the visitors' departure was broken by Paulson, who declared, "This is complete bullshit!" From long experience as an investment banker, he knew a scare story when he heard one. Yet it was unclear whether this alarm was entirely false — GM was offering only the most superficial analysis, with no detailed support for its assertions.

Studying the page about the Midwest, Ken Wilson, one of Paulson's advisers from Goldman Sachs, mused, "If these companies go down, you could have riots in the streets." And Paulson remembered the terrifying speed with which Lehman Brothers had collapsed weeks before, after the government refused to intervene. With that in mind, he took his undersecretary for domestic finance, Tony Ryan, aside. "I want this kept quiet and secret," he told Ryan, "but come up with a plan in case we find out at five o'clock some afternoon that General Motors is going to file the next day. The President needs the option to prevent a very messy bankruptcy. So find out what's the smallest amount of money we could give GM to get them to the next administration and what would we get for that. Would 19.9 percent of the equity be right, or what?"

As a further precaution, Paulson also asked Joel Kaplan, a deputy chief of staff to President Bush whom Paulson viewed as one of the few sensible people in the White House, to alert the President to the work soon to commence on the secret backup plan.

The Columbus Day meeting set the tone for two months of struggle and confusion. Within the week, Chrysler signaled that it, too, was desperate for cash. Ford, having prudently borrowed billions early in the downturn, was in better shape, although its CEO, Alan Mulally, began calling administration officials to try to ensure that the company wouldn't be put at a competitive disadvantage if its Detroit rivals got help.

For Washington, Detroit's emergency was in some ways more vexing than the cataclysm on Wall Street. The Treasury and other federal entities were rich in expertise for dealing with a banking crisis. But thanks to a long-standing and appropriate aversion to industrial policy,

the government had no comparable resources to bring to bear on imploding automobile giants. In fall 2008, this traditional distance from nitty-gritty business was compounded by the complete focus of the economic team on the financial crisis. So now, in response to Detroit's threatened collapse, the administration and Congress were going to have to start from scratch.

On the ride back to the Commerce Department after the secret meeting with Paulson and Wagoner, Carlos Gutierrez was puzzled. If GM really was in danger, was there any way to keep it afloat without having to involve Congress and without TARP? Gutierrez was a seasoned businessman whose career, begun behind the wheel of a Kellogg's delivery truck, had led him to the top of the \$10-billion-a-year cereal company. After several uneventful years as commerce secretary, he was open to a challenge. Back at the office, he shifted into CEO mode. "We need facts," he told his lieutenants.

That afternoon, in Gutierrez's private conference room, Ray Young and a group of Treasury and Commerce staffers reviewed a chart of GM's cash position, from the PowerPoint presentation. It showed, week by week, steep decline until, right around Election Day, GM would hit \$11 billion of cash on hand. "That's the minimum we need to operate," Young replied when asked about the significance of that figure. To Gutierrez, this in itself was a red flag. A well-managed business, even on GM's vast scale, should never need that much cash.

After two frustrating hours, Young left. "He's the CFO of General Motors and he can't answer a single question," complained Phillip Swagel, a high-level economist, as the team regrouped. Others would also find the forty-six-year-old Young, who had been GM's chief financial officer for only seven months, less than impressive.

During the next several weeks, the Commerce staff scrutinized two possible sources of emergency cash for GM: the Department of Energy's Advanced Technology Vehicles Manufacturing Loan Program and the abandoned plan to merge with Chrysler. GM did its best to cooperate, with Young and his staff scrambling day and night to satisfy requests for data. But Fritz Henderson, for one, despaired of getting help from the Bush administration the minute he heard that the Commerce Department was involved. "Commerce never actually accomplishes

anything," he pointed out. "They're good people, but they don't do stuff... Treasury gets things done, because that's what they do."

Nor was Wagoner reassured. GM had come to Washington hoping for a quick response — it was, after all, General Motors. Instead it got a paper chase. As the collapse in demand for new vehicles spread around the world, Wagoner concluded that neither of the solutions under study would work. The Department of Energy had yet to publish its rules for tapping the \$25 billion in advanced-vehicle incentives, but it was pretty plain that as the law was written, the money was meant for retooling plants and couldn't be used for a bailout. As for resurrecting the merger with Chrysler, Wagoner decided he had to put a stop to the idea. On the day before Halloween he told Gutierrez flatly that the merger was a nonstarter — it would not address the liquidity crisis and would only compound GM's problems. By now it was clear to Wagoner that Paulson had been right; if GM wanted help, it would have to go to Capitol Hill.

Election Day 2008 came and went without General Motors running out of money. But the Commerce Department's studies confirmed that GM's emergency was real and getting worse: before the year was out, the coffers would almost certainly be empty. Wagoner wasted no time getting in touch with his counterparts at Ford and Chrysler to ensure they would be at the front of the line when Congress reconvened for a lame-duck session.

The Democrats' victory parties had scarcely ended when, on November 6, the CEOs of the Big Three, along with Ron Gettelfinger, the UAW chief, paid a visit to House Speaker Nancy Pelosi, Senate Majority Leader Harry Reid, and other Democratic leaders. For ninety minutes, the visitors pleaded for loosened restrictions on the \$25 billion of advanced-vehicle incentives so they could borrow the money to stay afloat. Not surprisingly, given Obama's support from midwestern union voters, the Democrats listened attentively, but Pelosi's subsequent effusive statement of support was carefully hedged.

The next day, the automakers unveiled dire third-quarter earnings reports (GM having quietly dropped its plan to post results the day before the election). GM's in particular caused an uproar on Wall Street. It revealed that the company was now burning through a stunning

\$3 billion a month—roughly \$4 million an hour—more than double the losses of the previous quarter. And for the first time, GM acknowledged publicly that its cash balance would approach “the minimum amount necessary to operate our business” by the end of 2008.

Wagoner made a customary pilgrimage to CNBC, where auto correspondent Phil LeBeau didn’t hold back. “The numbers are not pretty,” he began. “How close is General Motors right now towards bankruptcy?”

Wagoner ducked, but LeBeau kept asking, finally eliciting a direct response: “We have no plans whatsoever to consider anything other than continue to run the business,” Wagoner said. “We don’t think anything positive would come out of any sort of consideration of reorganizations. I’ve seen pundits write this stuff, but you can’t sell cars to people under that circumstance.”

This wasn’t spin. The GM chief executive was convinced that, while consumers might fly on bankrupt airlines, they would never buy cars from a bankrupt automaker because of the need for warranty coverage and concerns about resale value. Our task force would later learn that, on Wagoner’s instructions, GM was making no contingency plans, no preparations whatsoever for a possible bankruptcy filing. Its investment bankers from Morgan Stanley and Evercore Partners had taken the unusual step of beginning to explore bankruptcy options on their own. But in October, when they’d advised GM’s board to prepare, Wagoner had cut off the discussion, curtly thanking them for their time. He had similarly dismissed every other effort to convince him to prepare for a possible bankruptcy. This attitude would add materially to the cost of the eventual rescue.

The auto industry was high on the agenda when Congress returned to work on November 18. At 3:02 P.M. on that overcast Tuesday, Senator Christopher Dodd gavelled to order a hearing of the Banking Committee on the automakers’ bailout request. Perhaps underrating the import of the moment, Dodd’s aides had passed on storied Senate venues like the ornate Caucus Room in the Russell Senate Office Building, where the Watergate hearings occurred. Instead the session took place in a remote hearing room in the Dirksen building, a drab 1958 relic. It was packed with photographers crowded in front of the dais, attend-

ces in rows of chrome-and-plastic chairs, and banks of TV cameras. Dodd quipped, "If I had known the interest, I would have held this at RFK" — the former football home of Washington's beloved Redskins.

The guests — CEOs Wagoner of GM, Mulally of Ford, and Robert Nardelli of Chrysler, as well as the UAW's Gettelfinger — testified in alphabetical order. Mulally and Nardelli bemoaned poor vehicle sales, and Wagoner summed up GM's problems as not of its making, as he had at Treasury: "Mr. Chairman, I do not agree with those who say we are not doing enough to position GM for success. What exposes us to failure now is not our product lineup, is not our business plan, is not our employees and their willingness to work hard. It is not our long-term strategy. What exposes us to failure now is the global financial crisis, which has severely restricted credit availability and reduced industry sales to the lowest per-capita level since World War II." As business skidded further in the weeks following the election, the automakers had dropped the pretext of requesting speeded-up advanced-technology incentives. Instead they asked Congress point-blank to open up TARP and direct the Treasury to provide \$25 billion of emergency bridge loans.

That week is remembered less for anything the CEOs said than for the furor that erupted after Brian Ross of ABC News reported that the three had flown to Washington in separate private jets. Wagoner had been advised by his Washington PR person, Greg Martin, to fly by commercial jet, but he had rejected the idea. "I have meetings," he told Ross after the hearing. "I have a tight schedule."

Yet the hearings proved pivotal in other ways, providing a public display of the automakers' state of denial and revealing Washington's confusion about whether and how to help the industry. Most senators and representatives glossed over tough issues and tossed around terms like "prepack bankruptcy" without any real idea of what they meant.

And the hearings created one of the unsung heroes of the auto bailout, Senator Bob Corker, a Republican from Tennessee. I came to Washington with a bias against Corker because he had beaten my favorite Senate candidate of the 2006 election, Congressman Harold Ford Jr., after a particularly ugly campaign. Small and wiry, with an intensity belied by his soft southern drawl, Corker had been a mayor and

businessman before being elected to the Senate. In that arena of show-horses and workhorses, he was proving to be a workhorse.

For Corker, the hearing was an eye-opener. Just returned from a trip to Russia and Ukraine, he was tired, had a headache, and hadn't spent more than a minute thinking about autos. But it wasn't lack of sleep that left him dumbfounded. The automakers were asking for \$25 billion but hadn't even told the senators how they were going to divide it up. Nor had any of them submitted or prepared plans to show how, if the request was met, their companies could be made viable without further outlays.

Corker, getting down to business with terse, biting questions, pressed the CEOs on how the money would be split. Wagoner replied that GM wanted "our proportionate share," in a tone that irritated Corker. He asked Gettelfinger to rank the three companies' "shape," best to worst: "Ford, Chrysler, and General Motors," the union chief acidly replied. Corker hammered the CEOs over the lack of analysis in their request, and Gettelfinger over an extreme provision of the UAW contract under which laid-off workers received 95 percent of their normal pay.

For Corker, this was his chance to "own" a major issue, at least among Republicans. Returning to his office in the nether reaches of the Dirksen building, he gathered his staff and began to lay plans for a fact-finding mission to Wall Street. He would seek out the finest auto industry analysts and financiers and maybe, just maybe, come up with a rescue plan.

With Thanksgiving fast approaching, Congress ended its session without taking action on autos. Instead, in a public letter, Pelosi and Reid offered the CEOs a do-over: the House and Senate would return for a rare second lame-duck session in December, devoted exclusively to autos. But that session would take place, the letter warned, only if each company presented "a credible restructuring plan." Interestingly, the letter did not directly address the most important issue: whether \$25 billion, as staggering as that sum would have seemed just months before, would even be enough.

The coda to the week happened not on Capitol Hill but on *Saturday Night Live*. The show opened with a parody of what the second set of hearings might be like. In the skit, the CEOs do not fly to Wash-

ington, they drive — and apologize to Congress for showing up late because their cars all broke down. “I was going to drive my 2009 Cadillac XLR-V, a model we at GM are very proud of,” says the ersatz Rick Wagoner, “but every time I tried to start it, I just got a powerful electric shock, and the upholstery would catch on fire.” The CEOs ask Congress not for \$25 billion but for hundreds of billions, to be paid over in quarterly installments over five years. “As you can see, Mr. Chairman,” says Wagoner, “this proposal is specific, it is detailed, and it is both short- and long-ranged.” When the congressmen protest, he adds testily, “With all due respect, we are not talking about a gift or a subsidy. We are talking about *a loan*.” The skit careens on until the CEOs end up boasting that they have entire factories devoted to building lemons, and acknowledge amiably that they probably will never pay the money back. As over-the-top as it was, the parody spoke to the unpopularity of using tax dollars to rescue the automakers: by early December, most polls showed public sentiment running against the idea.

Hank Paulson kept tabs on the auto crisis, but in truth Detroit’s headaches were pretty far down his list of major problems. The struggle to stabilize the financial system was gobbling auto-rescue-sized chunks of federal funding every week, and at the rate at which Treasury was bailing out banks, Paulson feared that TARP would run out of money. Congress had appropriated half of the \$700 billion authorized in the law that established the program; of that \$350 billion, the Treasury had already committed more than \$200 billion and the rest was going fast. If one or two more financial giants failed — Bank of America, say, or the huge financial operation at General Electric — the Treasury might not have the resources necessary to stave off a systemic collapse. Paulson’s worries intensified just before Thanksgiving, when Citigroup needed a second bailout — \$20 billion on top of the \$25 billion the Treasury had already kicked in.

All of Washington realized that the lame-duck Congress was unlikely to appropriate the second half of TARP. Bailing out Wall Street — unpopular back in October when TARP had first been passed — had become more politically toxic in the intervening six weeks. And of course President Bush, on his way out, had exhausted his political capital. Winning approval for the second half of TARP would certainly be eas-

ier in 2009, with a new President and a new, more heavily Democratic Congress.

But Paulson didn't think the matter could wait. He set out to make the case to Obama for securing the second half of TARP. He called Rahm Emanuel, Obama's chief of staff, two days before Thanksgiving.

"We need to take down the last part of the TARP and we can only do that with you and we need your help," Paulson said.

"That's not good news," Emanuel replied in his blunt fashion. He directed Paulson to call Larry Summers, the incoming President's top economic adviser. Summers questioned Paulson about TARP, and then, to Paulson's surprise, pointedly brought up autos. "You are not going to let the autos fail, are you?" Summers asked. The Democrats were moving Detroit to center stage.

Bush's White House staff, more focused than Paulson on the auto crisis, had expected this. In his first postelection press conference, Obama had emphasized his commitment to autos, which he called "the backbone of American manufacturing." He'd made the point again in his first private meeting with President Bush, pressing for help for the auto industry.

Bush's team saw that to obtain the additional TARP funding that Paulson argued was essential, they would have to rely on Democratic votes. That support, they believed, would be contingent on two things: the active endorsement of the President-elect and relief for the auto companies. But they didn't want to help Detroit unless they could attach strings—they wanted the automakers to secure concessions from major stakeholders to ensure their long-term viability. Otherwise, Bush's advisers argued, the incoming Democrats would cave in to special interests—particularly the UAW—with \$25 billion becoming \$50 billion or more. Meanwhile, the auto companies would do no genuine restructuring and instead end up wards of the state. To address these worries, Joel Kaplan, a deputy chief of staff, floated an interesting idea. Kaplan was a young, articulate Harvard Law graduate who had worked in the Bush White House since 2001. Paulson much preferred dealing with Kaplan and his boss, Josh Bolten, than with others among the White House's hefty contingent of rigidly ideological conservatives.

Kaplan proposed creating a "financial viability adviser" and granting him or her the power to hold the automakers accountable—they

would get no long-term money from the government without showing they could survive as going concerns. Importantly, from the Bush team's perspective, the incoming administration would publicly embrace that same commitment at the time of the viability adviser's appointment.

Paulson responded warmly to the idea. Bailing out an industry so fundamental to the American identity and way of life was a politically charged subject. Only someone outside the usual chains of command, someone of authority and integrity — Paul Volcker, the former Federal Reserve chairman, was mentioned — could force the tough decisions the industry would need. What was more, if the White House could persuade the Democrats to agree on the choice of an adviser now, there would be someone securely in place to hold off the unions and keep the bailout in check after Bush left office. "Financial viability adviser" quickly got shortened to "car czar," an epithet that would come to cause me much grief.

Paulson and Summers went round repeatedly that week about TARP. Summers felt that Paulson hadn't truly sold the Bush White House on the importance of taking down the second half of TARP and was trying to enlist the Obama team in his cause instead. In the course of every conversation with Paulson, Summers brought up autos. Although skeptical about the car-czar idea, he had started thinking about possible recruits, hence the call to me the afternoon before Thanksgiving.

Over the holiday, the White House stepped up its effort to engage Obama in a joint approach on both TARP and autos. Bolten phoned Emanuel to ask for a face-to-face meeting, but Rahm was reluctant. In the last presidential transition occurring during a historic economic crisis — Franklin Roosevelt's succeeding Herbert Hoover in 1933 — FDR had deliberately remained aloof until he was in office. The Obama team doubted that there was a workable way to co-govern. And it had studied that precedent and concluded that it had little to gain politically by collaborating on any issue, let alone TARP and autos. This carefully calculated decision was packaged under the appealing sound bite "there can be only one President at a time."

This was a source of frustration to Bush officials, who were pleased when Emanuel, unwilling to reject Bolten out of hand, agreed to a meeting — although he did not want it to take place in the Bush White

House and specified that Summers, not he, would lead the Obama delegation. On Sunday afternoon, November 30, the two sides, mostly dressed in khakis and sports coats, gathered at the Treasury Department in Paulson's corner office, Paulson in his customary wing chair and Summers on the couch next to him. The Bush delegation, led by Bolten, Paulson, Gutierrez, Kaplan, chief congressional liaison Dan Meyer, and Keith Hennessey (whom Summers would be replacing), far outranked the team from Obama, which was still forming a staff. Paulson laid out the White House proposal: if the incoming administration would "link arms" to win approval for the second \$350 billion of TARP, then the outgoing administration would support an auto rescue plan. Following this, Kaplan outlined his proposal for including an auto rescue in the uses of the second tranche of TARP. President Bush would issue an executive order appointing a financial viability adviser to administer the bailout, and the new Treasury secretary would agree to make TARP funding available only if the automakers could show that they were viable. As Summers already knew, this adviser would have broad authority to require financial plans from the automakers and to impose his own measures—including Chapter 11 bankruptcies—if the companies fell short. While the adviser would be officially selected by Bush, the Republicans made it clear that only someone acceptable to the Obama team would be named.

Summers zoomed in on TARP, probing for evidence that the added money was actually needed before Obama arrived. Next he asked a lot of questions about autos, not hiding his skepticism about the idea of a car czar. Why would Obama want to outsource a problem that was his responsibility? Bolten replied that the White House was open to other ideas, but the meeting ended inconclusively after ninety-five minutes. Paulson, ever relentless, called Summers twice the next day, and Hennessey also gave Summers a ring. The clear impression among the Bush team was that the Obama team did not want to say yes or no and was slow-walking them.

This triggered two recalculations. First, the administration decided to back off on TARP: as much as Paulson wanted the extra safety margin of \$350 billion, an ugly fight over gaining access to the money could roil the markets as badly as another bank failure. Second, worried about the sufficiency of TARP, it returned to a legislative strategy that involved

pushing Congress to make the advanced-technology funding available as a bridge loan to the auto companies.

"Every industry in America is hurting today. Show me one that couldn't be assisted and made more viable and more profitable with an additional \$34 billion," demanded Texas Congressman Jeb Hensarling. "So why the folks before us and not other folks?" By Friday, December 5, Detroit's CEOs were back on Capitol Hill for round two.

In two scant weeks, the amount of their bailout request had ballooned from \$25 billion to \$34 billion. GM, at this point, wanted a \$12 billion loan and a \$6 billion line of credit, including \$4 billion immediately to ensure survival past January 1. Chrysler wanted \$7 billion. Ford, breaking ranks, said it needed no immediate cash, just a \$9 billion line of credit.

In the midst of what was becoming a predictable circus, some truths emerged. Most compelling was the testimony of Mark Zandi, the chief economist of Moody's Economy.com, who had delved into the automakers' restructuring and restoration costs. According to his analysis, their recovery plans rested on too optimistic assumptions. Just to avoid bankruptcy in the next two years, Zandi testified, the automakers would need not \$34 billion but rather \$75 billion to \$125 billion — numbers that would prove amazingly prescient.

Yet Zandi conceded that, in its battered state, the economy could not stand Detroit's implosion. Like other witnesses, he recommended that Congress provide emergency aid, though not as much as the automakers had asked. More could be offered later if the turnarounds began to work.

The hearings ended with the grudging consensus that the automakers did indeed need help, but no one in Congress knew where the cash would come from, and only a week remained in the legislative year.

A weekend of horse-trading ensued, during which President-elect Obama appeared on *Meet the Press* to reiterate his support for a bailout. "Millions of people, directly or indirectly, are reliant on that industry, and so I don't think it's an option to simply allow it to collapse," he said. By Monday, the congressional Democrats and the Bush White House had outlined an agreement, although it would take another few

days to resolve the details of what a commentator called “the smallest Band-Aid that the automakers said they could live with [and] the most onerous conditions House Democrats could bring themselves to impose.”

The proposed bill provided \$14 billion in loans, to be drawn not from TARP but from the Advanced Technology Vehicles Manufacturing Loan Program, as the White House and other Republicans had been proposing. Also called for was the selection of a presidentially appointed car czar and the imposition of a March 31, 2009, deadline for the Big Three to submit turnaround plans. If these failed to satisfy the car czar, he could demand repayment, which would mean bankruptcy.

Speaker Pelosi had adopted the White House’s approach in hopes of winning Republican votes. But by midweek, the gambit was in trouble. Although it appeared that the House would approve the bailout, the Senate posed a much tougher hurdle. Many Republican senators were itching to take a hard line on the automakers and the unions.

These murmurs of dissent prompted Bush to dispatch both Chief of Staff Bolten and Vice President Dick Cheney to the Republican senators’ weekly policy lunch, where the discussion grew heated. Abandoning his customary hard-line, free-market, let-’em-fail rhetoric, Cheney warned that unless the senators took action, they risked being remembered as “the party of Herbert Hoover forever.”

As disgruntled lawmakers shifted in their seats, Bob Corker, not easily intimidated, stood up. “There is no way in heck that I would support this!” he said, declaring that the White House proposal demanded too little of the automakers. Describing what he’d learned from his fact-finding mission to Wall Street, Corker said that GM and Chrysler were effectively broke. More loans without the restructuring of liabilities and expenses would be folly, he argued. He laid out a set of tough strictures that would require the automakers to cut debt by making lenders accept stock; fund employee health care plans with stock, not cash; and make wages competitive. When he concluded, the caucus erupted in applause.

“If [Bolten and Cheney] came with ten votes, they left with two,” Corker said triumphantly after the lunch. He emerged with an unusual

charter: Minority Leader Mitch McConnell delegated him to use the last two days of the congressional session to negotiate a more stringent bailout bill. In the rigid Senate pecking order, such tasks were almost always reserved for senior politicians.

Word of the senators' rebellion spread fast. The White House had not expected to get many Republican votes in the House, and that proved to be the case. When Pelosi's bailout bill passed the House that evening, only 32 Republicans, mostly from auto manufacturing districts, joined 205 Democrats in voting yes. The auto bailout had been sucked into a Bermuda Triangle of transition politics. A lame-duck conservative Republican President, anxious that the auto industry not implode on his watch, was allied with congressional Democrats in the face of resistance from his own party.

Treasury Secretary Paulson wasn't holding his breath for Congress to get the job done. Dusting off the contingency plan commissioned weeks before, he called to set up a lunch to discuss autos with President Bush. Paulson wasn't enthusiastic about Corker's proposal; from an investment-banking standpoint, it wasn't bad work for an amateur, but the government's understanding of automakers' problems was still too limited to justify such specific measures. What's more, Paulson suspected that the Republican leadership's support for Corker was only lukewarm; he doubted that any bailout plan could actually muster the necessary votes.

His worry now was that Bush might not follow through on using TARP. Though the President had repeatedly told his senior team that he wanted a smooth transition and did not wish to saddle Obama with a major crisis as he walked in the door, the hard-core ideologues in the White House would certainly continue to argue against a bailout. To be sure, Paulson still believed that rescuing the automakers might strain TARP and hamper the Treasury in coping with a future crisis. But in recent days, the prospect of a disorderly bankruptcy of the automakers had moved up in his hit parade of imminent threats. Paulson was becoming convinced that an unplanned auto bankruptcy could have a disastrous impact on the declining economy and the frozen financial system.

So, as Paulson lunched with the President and Kaplan in the small

dining room adjacent to the Oval Office, he argued for a bailout. "GM has done no preparations to file for bankruptcy," he explained to Bush, who was eating carrots, a chopped apple, and a hot dog on a bun. "There is no private debtor-in-possession financing available. So a GM bankruptcy would be messy and would disrupt the network of suppliers," rippling through the industrial economy. Bush didn't explicitly agree, but Paulson left feeling reassured that if Congress failed to act, Bush would be open to emergency bridge financing using TARP.

Thursday, December 11, was shaping up as the biggest day of Bob Corker's young Senate career. He had started at 7:30 A.M. with a call to Fritz Henderson at GM. His quick win of the company's endorsement was not especially surprising, given that the bailout conditions Corker sought to impose involved mainly sacrifices by the UAW and GM's creditors. Ron Gettelfinger, Corker's next call, at least didn't hang up on him—he said the UAW was open to further discussions. Corker's final step of preparation was to make the short trip to the Capitol to persuade his fellow senators.

"It's showtime," Corker began in his appealing drawl as he stood on the Senate floor at 10:14. For the next seventeen minutes he reprised the argument he'd made to the caucus the day before, explaining his new conditions, which he now called covenants. "So let's go ahead and fund the request that has taken place," he pleaded. "And let's have three covenants, only three covenants. We can do this with a very short bill which we drafted. Three covenants."

Agreement on Corker's first two covenants came easily. The Democrats had no objection to the notion of converting two-thirds of the automakers' massive debt into equity—debt conversion is a standard practice when restructuring. The UAW, meanwhile, agreed in principle to accept GM and Chrysler stock in lieu of cash to help fund health benefits—it had made a similar accommodation with Ford.

Wages were another story. In exchange for federal money to keep the automakers afloat and save jobs, Corker wanted the UAW to bring Detroit's labor costs into "parity" with those of the Japanese transplants by the end of 2009. He was in effect angling for a concession that in decades of bargaining the Big Three had never been able to extract.

The senator was in constant motion, ducking in and out of the negotiation as the tension ratcheted up. The union would not commit to a firm date before the expiration of its contract in 2011 for cutting labor costs, and Corker would not back down. "This is the only thing standing between us and a deal and Christmas," Senator Richard Durbin of Illinois, the majority whip, said with exasperation at the Republicans' intransigence.

By 10 P.M. the negotiation had failed. Majority Leader Harry Reid announced, "It's over with," going on to predict that Wall Street would not be a pleasant sight the next day. More ominously, he predicted, "This will be a very bad Christmas for a lot of people as a result of what takes place here tonight."

Bitterly disappointed, Corker blamed the union, speculating that Gettelfinger and his team never really meant to come to terms: the UAW president, a master negotiator, knew that Bush would use TARP as a last resort, probably without the strings that Corker was trying to attach. And, of course, Gettelfinger was counting the days until the union-friendly Obama administration arrived.

Gettelfinger angrily countered by saying that in recent years the union had made several rounds of concessions to help the automakers while creditors and other stakeholders had sacrificed nothing. "The GOP caucus was insisting that the restructuring had to be done on the backs of workers and retirees," he declared.

Corker may have been a little in front of his skis, but his effort was admirable. He'd outshone his congressional colleagues in cutting through the confusion and emotion during the early hearings. And together with the Bush team, he had homed in early on the key issue: pumping money into either GM or Chrysler without a substantial restructuring of liabilities and expenses was foolhardy. The levers he tried to pull—reducing outstanding debt, restructuring health care obligations, and making wages competitive—were some of the same that we would manipulate later when the Obama task force took its turn.

The speed of the President's response the next day took the Treasury by surprise. At 7:10 A.M. Joel Kaplan phoned Paulson from the White House. "The President is on Air Force One," he began, explaining that Bush was en route to Texas but meant to issue a statement before land-

ing. "He does not want the markets to come unglued on the fact that the Senate failed to act," Kaplan said.

Paulson was annoyed to have only a few minutes to review the President's statement, but he was aware that politically, Detroit was not Wall Street. While Bush had allowed Paulson and Bernanke to call many of the shots during the financial panic, autos were a heartland issue on which the White House wanted to take the lead. The Bush administration was not alone in responding to the Senate's failure to act. Canadian Prime Minister Stephen Harper pledged that his nation would "do our share" to save the automobiles. Accordingly, that morning, the Canadian government declared that it stood ready to kick in an added \$2.8 billion to the proposed U.S. bailout. "We want to be part of the solution, and it will be commensurate with the production that takes place here in Canada," the industry minister told reporters.

Paulson summoned the exhausted staffers monitoring the automakers' crisis amid other duties. "You guys are now going to be working on a potential loan to the autos," he said. "The President is going to need options."

Minutes later, the White House statement came out. "Given the current weakened state of the U.S. economy," announced Press Secretary Dana Perino, "we will consider other options if necessary, including use of the TARP program, to prevent a collapse of troubled automakers." After that, Paulson's phone rang — calls from Kaplan and Gutierrez and the heads of the Big Three. Each CEO stayed true to script: Nardelli still wanted Treasury to make GM buy Chrysler. Wagoner asked to get started on a bridge loan for GM. Mulally, who stayed on the phone the longest, reiterated his concern that Washington would do something for the other automakers that would put Ford at a disadvantage. That refrain would continue ad nauseam.

The White House gave the Treasury four days — counting the weekend, that is — in which to map out options. Paulson and his team raced to answer two questions: What was the right policy, and what constituted a fair survey of options to present? A memo sent to the President on Monday night included four options. Except for the fact that TARP was now the source of the funding, the first option was very similar to the House bill — a bridge loan administered by a presidentially appointed car czar and subject to a financial viability test.

In the wake of the bill's failure in the Senate, the indefatigable Corker had been calling Paulson and the White House to urge the incorporation of his provisions in any bailout. The second option, preferred by Paulson, Kaplan, and their teams, centered on a bridge loan with conditions similar to Corker's. Finally, the memo outlined alternatives reflecting the views of the hard right: a proposal to provide TARP financing for an immediate bankruptcy and restructuring, and a proposal to do nothing at all and let the automakers fail.

The fate of the automakers was now in President Bush's hands. Tuesday afternoon, Paulson and Dan Jester, the head of his auto team, made their way to the Oval Office. During my time in Washington, I attended several such "decision meetings" and knew the inside story of others. Depending on the subject and the extent of disagreement among the President's advisers, the meetings could be either brief and almost perfunctory or hard-fought over many hours. This one fell somewhere in between.

The Bush White House was much more divided on what to do about autos than I would later experience under Obama. As a result, Jester spent much of the eighty-minute session trying to satisfy the concerns of Cheney, economic adviser Keith Hennessey, political adviser Ed Gillespie, and others favoring the harsh discipline of the marketplace. As the discussion wound down, the President went around the room soliciting recommendations from all of the dozen attendees. A handful of the more rigid, led by Cheney, had not been persuaded by Paulson and Jester. Bush was noncommittal, but in his body language, Paulson saw pragmatism trumping ideology. "Please let us know quickly," he asked the President.

That was not Bush's style. Despite his reputation for rashness, the President actually liked to chew over big decisions. Bailing out Detroit was certainly distasteful for him, especially as the last major act of his troubled presidency. He spurned bailouts on principle and privately disdained the U.S. automakers for being unable to build cars people wanted. Yet he'd already decided that letting the companies fail was off the table, and he had said so in public on December 12. As the week wore on, Paulson pestered Kaplan for an answer. "Look, Hank, this is a hard decision," Kaplan told his much older colleague.

"It's not a hard decision, it's an unpleasant decision," responded Paulson.

Ultimately the President ordered his staff to find a course of action somewhere between the more general House bridge-loan bill and the specific, mandatory conditions proposed by Corker. Keith Hennessey's compromise was to use strictures similar to Corker's but make them nonbinding, subject to the car czar's judgment. Bush went for that.

On Thursday morning, December 18, the President put GOP hardliners on notice that a bailout was imminent. Speaking at the American Enterprise Institute, a conservative think tank, he gave a surprisingly forthcoming response to a question about autos. "This is a difficult time for a free-market person," he began. "Under ordinary circumstances, failed entities, failing entities, should be allowed to fail. I have concluded these are not ordinary circumstances." In September he'd chosen to bail out Wall Street, he said, because "I didn't want to be the President during . . . the beginning of a depression greater than the Great Depression." Then he came back to Detroit: "I am worried about a disorderly bankruptcy and what it would do to the psychology and the markets. They're beginning to thaw, but there's still a lot of uncertainty. I'm also worried about putting good money after bad. That means whether or not these autos will become viable in the future."

Finally, in his customary, somewhat fractured English, he rebuffed ideologues: "Frankly, there's one other consideration, and that is, I feel an obligation to my successor . . . I believe that good policy is not to dump him a major catastrophe in his first day of office."

Because Bush had taken two days to make up his mind, there was only one day left before most of Washington shut down for the holidays—and the President wanted to announce the auto rescue on national TV before the markets opened the next morning. But lending tens of billions of dollars isn't simple. The Treasury needed agreed-upon, signed "term sheets," not just from General Motors and Chrysler but from their financing subsidiaries, GMAC and Chrysler Financial.

Those negotiations stretched deep into the night. Around 2 A.M. one of Paulson's colleagues took a call from Steve Feinberg, the chief of Cerberus, the private equity firm that owned most of Chrysler. Cer-

berus was proposing to turn over the automaker to the U.S. government for one dollar. Having witnessed the stalemate in Congress, the investor explained, he wanted to help resolve the crisis. The Treasury team mistook Feinberg's patriotism for a joke and just another sign of the automaker's desperate state.

Most of the staff members worked straight through. When the White House called at 7:30 to ask "Are you ready?" Jester was able to say, "We're looking good." The team delivered signed term sheets from both automakers. Characteristically, GM's paperwork didn't show up until just minutes before the President's scheduled airtime.

At 9:01 on that overcast, drizzly Washington morning, George Bush made it official, announcing the biggest industrial bailout in American history, with \$17.4 billion of TARP money headed to Chrysler and GM.

The announcement happened to fall on the same day as the annual White House senior staff dinner. For this, the eighth and final such event of Bush's tenure, many former staffers had been invited as well as the current crew, so about one hundred diners gathered that evening in the East Room.

At the end of the meal, Josh Bolten rose to address the President and his colleagues. "As everyone here knows, each year the senior staff chips in to buy the President a Christmas gift," he began. "One year we bought him a high-quality chain saw. Another year we bought him an underwater camera. Last year, we all pooled our funds and bought him a top-of-the-line weed whacker for the ranch. Mr. President, this year for Christmas your senior staff chipped in and bought you . . . Chrysler!" The group burst into laughter and applause.

In retrospect, the Bush team's approach to the problem proved more thoughtful than I originally understood. For one thing, the loans bought time, not just until January 20, inauguration day, but until at least March 31, giving us a little breathing room. For another, Bush appropriately designated the Treasury secretary as the ultimate authority under the loan agreements, effectively declaring that there would be no independent car czar. Finally, adopting Corker's conditions — as imperfect as they were — provided a baseline of expected sacrifices that paved the way for our demands for give-ups from the stakeholders.