Lesson 3: US Auto Industry Bailout

In this lesson, you will learn how the automotive industry crisis was part of a global economic meltdown. You will study the collapse of Chrysler’s Chapter 11 filing and how it sparked a much wider crisis in the US and worldwide automotive industry.

Before You Read

1. Skim the title and article to answer the following questions.
   a. Read the title of this lesson “US Auto Industry Bailout”. What issues do you think the reading will discuss?
   b. Take a minute to skim the first and second paragraphs. What do you think the author’s aim is?

2. Work in pairs or small groups. Draw from your own experience to answer the following questions.
   a. Apart from the companies that actually manufacture cars, such as Chrysler and Toyota, what other businesses are involved in the automotive industry supply chain.
   b. Discuss how the wider financial crisis that started in 2008 may have affected the US automotive industry.

3. In the box below are some key words and phrases shown in the reading. Work in pairs and see if you know what they mean; if necessary, consult a dictionary.

<table>
<thead>
<tr>
<th>automobile</th>
<th>credit crunch</th>
<th>alliance</th>
<th>supply shortage</th>
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</thead>
<tbody>
<tr>
<td>domino effect</td>
<td>subsidize</td>
<td>first quarter</td>
<td>fiscal year</td>
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Reading

For many years, the US auto industry’s Big Three (General Motors, Ford, and Chrysler) have played a vital role as both pillars and beneficiaries of American growth and economic achievement. However, from their once dominant position, by 2005 these automakers were producing less than 60% of all automobiles and light trucks sold in the US.

The auto industry was hit hard by the US financial crisis and credit crunch in 2008, causing people to hold off on buying new cars. Consequently, GM and Chrysler ran out of cash and sought a government bailout to avoid bankruptcy. Detroit’s supremacy under threat, the earnings of the Big Three were badly hit by a shrinking domestic market share, plunging profits, and the high wages, pensions and generous health benefits promised to their existing and former workers.

In addition, the Big Three were facing increasing pressure from foreign competition with strong products, high mileage, and low prices. These internationally based carmakers, such as Toyota, have invested and built factories in North America and taken advantage of the lower costs associated with their efficient manufacturing techniques and non-union operations.

Chrysler’s bankruptcy in April, 2009 was a sad milestone in US auto history. The company sought relief after failing to obtain approval from any of their 45 lending institutions to surrender nearly two-thirds of their $7 billion in debt. While Chrysler succeeded in convincing its largest creditors—JP Morgan Chase, Citigroup, Morgan Stanley and Goldman Sachs—to resolve some of their debt, the carmaker was unable to reach an agreement with a group of smaller creditors.

Chrysler eventually filed for protection, despite successful completion of an alliance with the Italian auto giant Fiat and concessions from major unions. Chrysler’s plans to use bankruptcy laws to clear away their remaining obligations, so that they can get back on their feet and onto a path of recovery.

Chrysler’s Chapter 11 filing has come at an already tough time for auto suppliers, many of whom are struggling to stay in business as automakers by continually curtailing production. Analysts have speculated that the loss of business through production cuts or delayed payments could force suppliers that are heavily dependent on Chrysler to shut down their own production or even close up shop. This in turn could cause supply shortages at other automakers, both domestic and foreign, and make them also limit production.
The domino effect will be substantial. The cuts don’t just hurt GM and Chrysler, but potentially Ford, Toyota, Honda, Hyundai and other competitors. Automakers that are not surviving on federal loans have been subsidizing their ailing suppliers for months in an effort to keep parts flowing to their factories. While Ford has not applied for any federal support, the automaker has repeatedly said that it fears a bankruptcy by one or more of its rivals could disrupt its own supply chain.

US automakers are not alone in their struggles. In 2009, Toyota announced a first-quarter loss of $7.7 billion—a bigger loss than the one GM reported—resulting in the worst fiscal year since the Japanese automaker was founded in 1937. Toyota overtook GM in 2008 to become the world’s biggest automaker in annual sales, thanks to their reputation for quality and fuel efficiency, but the company’s business has since been severely impacted by reduced sales worldwide.

**After You Read**

1. The following five sentences are extracted from the reading. Use contextual clues to guess the meaning of each highlighted word or phrase.

   a. For many years, the US auto industry’s Big Three have played a vital role as both a pillar and a beneficiary of American growth and economic achievement.

   b. When the auto industry was hit hard by the US financial crisis and credit crunch, causing people to hold off on buying new cars, GM and Chrysler ran out of cash in 2008 and sought a government bailout to avoid bankruptcy.

   c. Chrysler’s plans to use bankruptcy laws clear away its remaining obligations, so that it can get back on its feet and onto a path of recovery.

   d. Chrysler’s Chapter 11 filing has come at an already tough time for auto suppliers, many of whom are struggling to stay in business as automakers continually curtail production.

   e. Toyota overtook GM in 2008 to become the world’s biggest automaker by annual sales, thanks to its reputation for quality and fuel efficiency, but the company’s business has since been severely impacted by reduced sales worldwide.

2. Scan through the reading and answer the following questions.

   a. What are some of the reasons why the Big Three’s share of the US auto market has been in decline over the last few decades?
b. Explain what the “credit crunch” was and how it may have impacted the US auto industry?
c. Why may Chrysler not survive bankruptcy protection, despite its alliance with Fiat?
d. How could Chrysler’s bankruptcy filing affect its supply chain?
e. How could other automakers in the US and around the world be affected by the collapse of Chrysler?

**Economics Vocabulary**

*This vocabulary is commonly used in the field of economics and business.*

- **beneficiary** *n*  someone who gets an advantage or a gift from a situation
- **dominant** *a*  more important or powerful or successful
- **credit crunch** *n*  a reduction in the general availability of credit
- **hold off** *v*  to deliberately delay doing something
- **supremacy** *n*  a situation in which one person, group or thing has more power or influence
- **shrink** *v*  to become smaller in amount, value, or range
- **plunge** *v*  to suddenly become much lower
- **wage** *n*  an amount of money that you earn for working
- **pension** *n*  money that someone regularly receives from the government or their former employer after they have retired
- **carmaker** *n*  car manufacturer
- **operation** *n*  action
- **creditor** *n*  a person or company that is owed money by another person or company
- **concession** *n*  something you give someone in order to reach an agreement
- **obligation** *n*  something that you must do because of a law or duty
- **curtail** *v*  to reduce or limit something
- **domino effect** *n*  a situation in which one event causes a whole series of other events to happen one after the other
- **substantial** *a*  important, or large in amount or value
subsidize  v  to pay some of the cost of goods or services so that they can be sold at a lower price
ailing  a  having problems and getting weaker
first-quarter  n  the first three months of the financial year
fiscal year  n  a period of twelve months, used by government and business organizations to calculate budgets, profits and losses; also known as the financial year

General Vocabulary
This vocabulary is used for general purposes.

vital  a  essential
pillar  n  an essential supporting part of a structure
milestone  n  an event that marks an important stage in a process
relief  n  a temporary improvement in a difficult situation
approval  n  official agreement or permission
surrender  v  to give up a fight
flow  v  to continue without stopping
disrupt  v  to interrupt
## Vocabulary Practice

### Crossword Puzzle

*Complete the crossword puzzle by filling in the vocabulary based on the clues.*

<table>
<thead>
<tr>
<th>Across</th>
<th>Down</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. to give monetary assistance or support</td>
<td>1. to cut or reduce</td>
</tr>
<tr>
<td>5. to prevent something from continuing as usual</td>
<td>2. an individual or institution who receives benefits</td>
</tr>
<tr>
<td>6. a condition of being the number one or most powerful</td>
<td>4. to drop suddenly</td>
</tr>
<tr>
<td>8. money earned in exchange for working</td>
<td>6. something that you do in order to end a fight</td>
</tr>
<tr>
<td>9. something that you must do because of a law or responsibility</td>
<td>7. something that is given up in the hope of obtaining something else, especially in a negotiation</td>
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</table>
2. Summary Completion

Look through the reading again and complete the summary below.

Paragraph 1: Today, the Big Three auto companies are not the dominating pillars of the US economy that they were in the immediate post-war era.

Paragraph 2: The US auto industry was adversely impacted by the domestic financial crisis and credit crunch. The shrinking profits, shrinking domestic market and high wages and pressure forced General Motors and Chrysler to seek government financial help to avoid bankruptcy in 2008.

Paragraph 3: The US auto industry also faced external pressure from foreign automakers. Toyota, with their strong products, high margins and low prices, has become one of the Big Three’s toughest competitors.

Paragraph 4: Chrysler declared bankruptcy in April 2009 because it failed to convince all of its creditors to restructure the debts.

Paragraph 5: Chrysler filed for Chapter 11 and hoped the laws would help clear their remaining obligations.

Paragraph 6: Chrysler’s bankruptcy has put auto suppliers in a rather difficult situation, making them cut production in a way that could cause a supply squeeze for other automakers worldwide.

Paragraph 7: The cut in auto suppliers’ production has led to a substantial domino effect on automakers, which had to sell ailing suppliers in order to keep their supply chain flowing.

Paragraph 8: Companies outside the US are also suffering from reduced auto sales. Toyota, which outperformed General Motors to become the world’s largest auto maker in 2008, reported a fiscal loss of $7.7 billion US dollars in 2009.
## Language Focus

### Collocation

*The table below shows important Verb + Noun collocation patterns from the reading. Pay careful attention to these active verbs.*

<table>
<thead>
<tr>
<th>Verb</th>
<th>Noun</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>seek</td>
<td>government bailout</td>
<td>In 2008, when the auto industry was hit hard by the US financial crisis and credit crunch, causing people to hold off on buying new cars, GM and Chrysler ran out of cash and <strong>sought a government bailout</strong> to avoid bankruptcy.</td>
</tr>
<tr>
<td></td>
<td>relief</td>
<td>The company <strong>sought relief</strong> after failing to obtain approval from all 45 of its lending institutions to surrender nearly two-thirds of their $7 billion in debt.</td>
</tr>
<tr>
<td>resolve</td>
<td>debt</td>
<td>While Chrysler succeeded in convincing its largest creditors—JP Morgan Chase, Citigroup, Morgan Stanley and Goldman Sachs—to <strong>resolve</strong> some of its <strong>debt</strong>, the carmaker was unable to reach an agreement with a group of smaller creditors.</td>
</tr>
<tr>
<td>clear away</td>
<td>obligation</td>
<td>Chrysler plans to use bankruptcy laws to <strong>clear away</strong> its remaining <strong>obligations</strong>, so that they can get back on their feet and onto a path of recovery.</td>
</tr>
<tr>
<td>curtail</td>
<td>production</td>
<td>Chrysler’s Chapter 11 filing has come at an already tough time for auto suppliers, many of whom are struggling to stay in business as automakers continually <strong>curtail production</strong>.</td>
</tr>
<tr>
<td>survive on</td>
<td>federal loan</td>
<td>Automakers that are not <strong>surviving on federal loans</strong> have been subsidizing their ailing suppliers for months in an effort to keep parts flowing to their factories.</td>
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Corpus Practice

Choose the corpus introduced in the previous three units that you are most comfortable with. Find two verbs that frequently collocate with the nouns bailout and obligation and fill in the blanks before the word bubble. Then pick one verb and write a sentence in the blank after the bubble.

bailout

obligation

Task-Based Activities

Task Ⅰ Understanding Share Price Graphs

In the early 2000s, Toyota Motor Corporation (TM) and General Motors Company (GM) were neck-and-neck in global auto sales. In the first quarter of 2008, TM finally surpassed GM as the world’s number one automaker, with the latter losing it’s title after seventy-seven years. Look at the TM and GM share prices in the graph below and answer the following questions.

Source: Yahoo! Finance

= Toyota Motor Corporation (TM)

= General Motors Company (GM)

= Dow Jones Industrial Average (DJI)
Questions
1. How was GM’s overall stock price performance compared to the Dow Jones Industrial Average benchmark?

2. How was TM’s overall stock price performance compared to the Dow Jones Industrial Average benchmark?

3. What were the two periods of GM decline?

4. Why did GM’s line end in June 2009?

Task II Describing Share Price Graphs

Now, write a short paragraph describing how the share prices of both GM and Toyota relate to the Dow Jones Index, as shown in Task I.

Your Answer
Model Description

The graph shows how the share prices of two car companies, GM and Toyota, compared to the Dow Jones Index from 2005 to 2010. It can quickly be seen that the two firms had very different experiences in the market. For nearly all of the period Toyota remained above the Dow Jones Index, and their rises and falls also followed those of the Dow Jones. In contrast, GM was significantly below the index for almost the entire period. This difference was relatively small until late 2008, when GM’s share price suddenly plummeted and soon had lost more than 80% of its value.

Task III  Group Work: Consumer Vouchers

The late 2000s financial crisis began in 2007 due to a liquidity shortfall in the US banking system that soon swept world markets and financial institutions with the worst depression since the 1930s. Many government initiatives were undertaken to combat the economic downturn. In 2009, the Taiwan government implemented an island-wide consumer voucher economic stimulus package to spur consumer spending. Putting aside the excitement of receiving so-called “free” spending money, what is your view—as a student of economics—of this program? Is issuing consumer vouchers the only or the best solution to the consumer spending problem?
Now, form consumer voucher discussion teams in groups of four. With your partners, you should:

1. Discuss the Taiwan consumer voucher program from the following four aspects.
   a. **Consumer Vouchers:** Who was eligible for consumer vouchers? How much were the vouchers worth per person? When were the vouchers given to the public? How could the vouchers be used?
   b. **Mechanism and Intended Effect:** On January 20, 2009, the United Daily News reported, “Based on the premise of a multiplier effect in economics, the ROC [Taiwan] Government estimates a growth of 0.66% to 1% in GDP as a result of the increase in domestic demand from the circulation of these vouchers.” Explain how the multiplier effect helped stimulate the Taiwan economy.
   c. **Pros and Cons:** What were the advantages and disadvantages of consumer vouchers? In your view, do the advantages outweigh the disadvantages, or vice versa?
   d. **Other Possible Solutions:** What could be some of the other solutions to boost consumer spending? Do you think it really could have solved the recession? Write in your answers in the table below.

2. Plan a five-minute presentation with your team members about your discussion using your notes from question one. Try and use some vocabulary items from the reading.

### Taiwan Consumer Voucher Discussion

<table>
<thead>
<tr>
<th>Consumer Voucher</th>
<th>Mechanism and Intended Effect</th>
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