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## Political Stock Picks

By Richard W. Rahn

Published May 6, 2009

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### *Uncle Sam goes on a buying spree, chargeable to you*

Did you want to own shares of stock in Chrysler LLC, General Motors Corp., American International Group Inc., Citibank and other major corporations?

Well, if you did, you could have purchased them through any stockbroker. But if you chose not to buy them, you are out of luck because the U.S. government is buying them for you, whether you want them or not.

One could be picky and ask where the Constitution gives the president the right to serve as our personal stockbroker - ah, it doesn't - but constitutional niceties are not much of a concern within the Washington establishment.

After frittering away 4 billion "bailout" taxpayer dollars to "save the company," Chrysler just announced it was going into bankruptcy. Not the normal Chapter 11 bankruptcy, but a "managed bankruptcy" that will require at least another 8 billion in taxpayer dollars, while, at the same time, turning 55 percent of the ownership of the company over to the United Auto Workers (whose contracts and work practices helped destroy Chrysler) and 35 percent of the equity to Fiat motors of Italy (a company that is contributing no cash - hmmm). U.S. and Canadian taxpayers are putting up a lot of cash but only get to share the remaining 10 percent ownership.

This proposed Chrysler deal raises a whole series of questions that taxpayers, creditors, existing shareholders and those who believe in the Constitution should find troubling. Why should taxpayers believe another \$8 billion will be enough, since all of the previous forecasts about how much Chrysler would need were dead wrong? Why should Fiat be given such a large ownership share merely on the promise to bring small-car technology - and not cash - to Chrysler? (It should be noted that Fiat historically has been far from the best-run car company. In 2003 and 2004, it had to be bailed out by GM - yes, GM - which eventually lost \$2 billion on the deal, leading, in part, to its own problems.)

Why is it proposed that the secured creditors - those with specific pledged assets - are treated no better than the general creditors, in violation of their contractual rights? Why are the cash creditors treated worse than the pension creditors? Should not the taxpayers who are forced to put at least \$12 billion into the company have a superior claim to future earnings before the UAW or Fiat?

Why should one believe the directors the Obama administration appoints to the board of Chrysler will have the necessary expertise and not be more beholden to the Obama administration and the Democratic Congress than to the American taxpayer?

The evening before the announcement of the proposed Chrysler deal, President Obama said during his news conference that he and his administration had no interest in running the banks and the auto companies - which was reassuring. But the actions of the administration have been totally contrary.

Normal bankruptcy law, under Chapter 11, enables companies which appear to have a viable future to reorganize and reduce their debt and operating burdens by paying the creditors something above salvage value and rewriting labor contracts. This is done through the courts and requires no involvement of the executive or legislative branches of government - and is blessed by explicit mention in the Constitution.

If a business, even after reorganization, will still not be viable without a subsidy, why should a taxpayer get stuck with the tab? After all, there are plenty of competitive, well-managed and solvent banks, insurance companies, auto companies, etc., to pick up the slack for those that are not viable and to provide for consumers' wants, needs and desires.

Over the past century, three basic economic models have been tried: socialism, where the government owns the means of production and where there are almost no property rights; fascism or state capitalism, where the means of production are owned by private parties but where the government controls the actions of the companies, including who is named to run them, and where private property rights are severely limited; and finally, capitalism, where the means of production are privately owned and property rights are strongly protected.

Over time, only one of these systems has been compatible with continued economic growth, opportunity and liberty - and that system is capitalism.

Capitalism is a self-correcting economic system and only gets in sustained trouble as a result of faulty government policies, such as excessive or erratic monetary growth, which causes "bubbles"; inflation or deflation; and/or destructive tax, spending or regulatory policies.

Politicians in Washington coercing citizens to buy into companies they wish not to, and politicians picking boards of directors and managers of companies are doing more than merely flirting with socialism and fascism.

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