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Government Grinds the Gears

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The state should referee, not pick sides

If you knew that baseball teams with winning records tended to be more profitable for their owners than those with losing records - and if you learned that the Baltimore Orioles had just been purchased by the major league umpire's union, would you expect the Orioles to win more or fewer games? Almost everyone implicitly understands why the umpires should not be allowed to own teams they referee.

In a free-market economic system, the government is supposed to be the referee and not a player. Its job is to set and enforce the rules, but if it is allowed to also become a player, by owning and managing business enterprises, it is unlikely to treat the competing companies fairly, and there will be little check on its own misbehavior. Congress is now debating whether the U.S. government will create its own national health provider. The government is now the majority owner of the nation's biggest automobile manufacturer (General Motors Corp.), the biggest bank (Citigroup Inc.), and the biggest insurance company (American International Group Inc.). The record of government ownership and/or control of companies in the United States and elsewhere has been one long disaster.

Look at the past year alone. The nation's largest man-made environmental disaster (according to the New York Times) was the coal-ash spill in Tennessee on Dec. 28, 2008, caused by negligence at the Tennessee Valley Authority (a federal-government-owned enterprise). By volume, this spill was 48 times bigger than the Exxon Valdez spill. This September, the government formally took over mortgage giants Fannie Mae and Freddie Mac, whose financial holes were many times larger than those of Lehman Brothers Holdings Inc., WorldCom, Enron Corp. or GM. Fannie and Freddie were both U.S. government-sponsored and -regulated companies that had the implicit guarantee of the U.S. taxpayer.

Yet the companies not only failed, but between them have also left the U.S. taxpayer liable for more than \$1 trillion. All too many in the mainstream media choose to ignore or underreport government failures while hyping private- company failures. Just look at the press coverage of the Exxon Valdez versus the TVA Tennessee spill, or the coverage given Enron versus Fannie and Freddie.

The Democratic majority in Congress is pushing to create a federal government national health care provider that is supposed to operate in competition with private health care companies. Anyone who thinks the government would operate such a company competently, efficiently and fairly is ignoring 200 years of history. Without a doubt, it will engage in health care rationing, create an expensive and bloated bureaucracy, provide poorer service, stifle innovation and seek to repress its more efficient and preferred private competitors.

President Obama recently said he does not "want to run General Motors." The question then is, "Why is he?" No one is forcing him to. The administration could sell GM within a week or give the stock to taxpayers (as some Republicans have proposed).

With the government owning GM, stockholders of and workers at Ford Motor Co. and all the other companies are put at unfair disadvantage, because GM and its financing arm have a lower cost of capital (thanks to the taxpayer) than the privately held and managed competitors. Under government management,

GM will probably continue to lose money, and you can bet the referee (the U.S. government) will show favoritism to GM to keep its losses down versus its private competitors. As a result, taxpayers will be forced to pick up the liabilities, and consumers will have less choice.

The government has destroyed tens of billions of dollars of stockholder value (read "pensions" for many American workers) by forcing banks that did not want or need government money to take it, and then put in retroactive restrictive provisions on management as part of its ownership "right."

When the chief executive officer of a truly private business runs the stock of his company into the ground, he or she is usually properly berated in the press and often subject to lawsuits. However, government officials who engage in similar or worse mismanagement are rarely criticized in the press and are immune from lawsuits, even though they have destroyed part of the financial well-being of their fellow citizens.

The American Founding Fathers well understood human nature, and that is why they developed the system of checks and balances for the new republic.

Before the Berlin Wall fell, many compared the West German Mercedes-Benz with the East German Trabant (a small, dangerous, smelly, polluting piece of junk posing as an automobile) to illustrate the superiority of capitalism over socialism.

When government fails to limit its role to being the referee, and also begins to field a team in competition with private parties, the system of checks and balances breaks down. The result - more incompetence, less efficiency, fewer innovations, poorer service and more corruption!

There is still time left to prevent the Trabantization of the American health care, financial and industrial sectors by merely saying no!

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