



## **Opposing view: No way to run an economy**

By Dan Mitchell

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One defining characteristic of cronyism is that politically connected businesses and industries get special favors from the government. Most people oppose it because of the inherent corruption, but economists also dislike it because it lowers living standards by hindering the efficient allocation of resources.

Unfortunately, the bailout craze in the United States is a worrisome sign cronyism is taking root. In the GM/Chrysler bailout, Washington intervened in the bankruptcy process and arbitrarily tilted the playing field to help politically powerful creditors at the expense of others. Not only did this put taxpayers on the hook for big losses, it also created a precedent for future interventions.

This precedent makes it more difficult to feel confident that the rule of law will be respected in the future when companies get in trouble. It also means investors will be less willing to put money into weak firms. That's not good for workers, and not good for the economy.

The bailouts in the financial sector are equally troubling. When the politicians intervened, poorly managed firms were given a new lease on life — even though they helped cause the housing bubble!

The pro-bailout crowd argues that lawmakers had no choice. We had to recapitalize the financial system, they argued, to avoid another Great Depression. This is nonsense. The federal government could have used what's known as "FDIC resolution" to take over insolvent institutions while protecting retail customers.

Yes, taxpayer money still would have been involved, but shareholders, bondholders and top executives would have taken bigger losses. These relatively rich groups of people are precisely the ones who should burn their fingers when they touch hot stoves. Capitalism without bankruptcy, after all, is like religion without hell.

And that's what we got with TARP. Private profits and socialized losses are no way to operate a prosperous economy.