

Debate heats up over merits of General Motors bailout as IPO nears

By [Jon Ward](#) - The Daily Caller 2:45 AM 08/16/2010



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There is no question that the federal government's bailout of [General Motors](#) has [worked](#), in the most basic sense of the word.

But as GM moves out from under majority government ownership [this week with a stock offering to investors](#), the debate over whether President Obama's bailout of the auto giant was a good thing in the bigger picture will intensify.

The White House is touting GM's planned IPO as proof that the government can intervene in the marketplace surgically [with positive results](#).

"I think the President's philosophy that communities that are built around and generations of families that are built around work in the auto industry shouldn't be abandoned without a fighting chance I think has proven to be correct," said White House press secretary Robert Gibbs.

The talking point may be effective in helping Democrats weather what is [shaping up to be](#) a brutal midterm election, though some are questioning whether the administration has [pushed GM](#) toward the IPO in time for elections.

Of course the IPO must first go off successfully in order for GM to get a boost toward repaying the government \$50 billion in taxpayer [money](#) that was used [to bail them out a year ago](#). That itself is [no sure thing](#), though the White House has said they are confident they will recover their money in full.

Beyond that, those who are unhappy with GM's bailout acknowledge that the auto company's restored

fortunes are a good thing in the sense that many jobs were saved. But, they say, the precedent that has been set may make it more difficult to create jobs in the future.

The GM bailout, critics say, sent the wrong signal to large U.S. businesses, continues a pattern of making the private sector [increasingly uncertain and unpredictable](#), and deprived GM's competitors of [market share](#) that they had earned. Those competitors could have filled in some of the hole created in terms of lost jobs and parts suppliers put adrift by GM being allowed to go under.

“What is the moral of this story? It's that a firm can get really, really big, make every decision on its own that put it into this precarious situation by overpromising on pensions, by keeping too many dealerships, by basically executing a bloated business model, and you can get away with that because someone is going to come in and rescue you,” said Tony Fratto, a former White House communications and [economic](#) adviser to President Bush.

“That's not a moral that we want to be proud of,” and the Obama administration “should not be beating their chests,” Fratto said. “They should be embarrassed for GM. They should have the very same attitude toward the auto companies that they did toward the banks.”

Dan Ikensen, of the libertarian Cato Institute, said that the bailout “encourages irrational behavior.”

For politically connected large corporations, he said, “it encourages risk-taking when risk aversion is wise.”

The Obama administration, however, says that GM's situation was unique, and that they acted only because they deemed it to be an extraordinary circumstance. Administration officials say that one million jobs were at stake, and possibly millions more if other auto manufacturers were hurt by GM's failure and had to shed jobs. Critics counter that GM's competitors could have hired some of the unemployed workers.

Barry Lynn, a senior fellow at the nonpartisan New America Foundation, said the bailout was a good thing based on the jobs saved, and because of the “cascading domino effect” that a GM implosion would have had on other car makers.

And, Lynn said, GM came to the edge of [financial ruin](#) only because of the economic crisis of 2008 and the resulting recession.

“These companies that made a bunch of bad decisions got caught in somebody else's downdraft. So penalizing these workers for decisions made on Wall Street and in Detroit seemed pretty harsh,” Lynn said.

“Even if you decided that GM as a team, that everyone had sinned and that the company deserved to go out of business, the way the auto industry is structured these days, you really can't have one company go down without having huge effects on the industry as a whole.”

Conservatives dispute this. Some say the job loss predictions at the time of GM's bailout were inflated. But others acknowledge that the impact on the part supply chain and on companies such as Ford would have been serious.

The problem, they say, is that the dynamic in the U.S. private sector is already [troublesome](#) for business expansion, and such arbitrary interventions only exacerbate that.

“If you could just tell us right now, which are the industries that are deserving of federal rescue and which ones aren’t, and then we as investors can make decisions as to which ones we want to invest in,” Fratto said. “The question is where do you go? You said auto is critical. Ok, which other ones are critical? Tell us. Are the insurance companies? Health care providers? What happened if a major health insurance provider was collapsing and a lot of people were going to be hurt and it was going to affect lots of hospitals. Would you step in to rescue them?”

The administration declined to address the moral hazard question on the record. But they insisted privately that they do not intend to make the GM bailout a model for future policy.

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