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Editorial: No dividends for corporate welfare

U.S. automakers still face bankruptcy despite billions the government spent to save them

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Don't say that we didn't warn that the billions of dollars in bailout money that the feds targeted to two failing automakers would end up being money down a rat hole.

A new U.S. Government Accountability Office report released this month provided an analysis of the government-driven restructuring efforts of the auto industry. USA Today quoted a transportation analyst who looked deeply into the report and highlighted these significant GAO conclusions: "The Treasury Department tried to find assets for securing collateral from the automakers in return for the $22.9 billion in loans they have already received, but was hamstrung because many other creditors had already staked out the turf. The government could be on the hook for billions more if Chrysler or GM liquidate. That's because the Pension Benefit Guaranty Corporation might have to step in to pick up either defunct company's benefits and pension."

That doesn't mean that bankruptcy isn't a good idea. It just proves that it was an absurd waste for the Bush and Obama administrations to hand out billions of dollars in corporate welfare in the first place.

In recent days, GM announced its plan, which would not only cut 21,000 jobs and shut down struggling divisions such as Pontiac, but would "ask the government to take more than half of its common stock in exchange for canceling half the government loans to the company," according to an Associated Press report. Giving the federal government controlling interest in a private manufacturer is not only bad public policy, but could signal the eventual death of a once-great car builder. President Barack Obama insisted that he has no interest in running a private company, but federal control will skew design decisions and add bureaucracy to an already bureaucratic organization.

The potential good news is that GM might still file for bankruptcy, just as Chrysler has done this week. The president decried the Chrysler decision, and lashed out at private equity firms that tried to hold out for a better deal. But while bankruptcy offers a needed chance to reorganize, it's hard to imagine a thriving company emerging in its wake if the administration succeeds in using the bankruptcy process to impose its ideas on the company, which include divvying up the company between the union health fund, the Italian automaker Fiat and the U.S. and Canadian governments. There has to be a joke out there for the type a cars that might emerge from that oddball amalgamation.

These companies created their own problems,

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and they deserve to live with the consequences of those mistakes.

Taxpayers should not be forced to bail them out, and the federal government – which is thoroughly incapable of reforming any of its own institutions – has no business making corporate decisions. The unions who will control these companies are a huge reason that the companies have failed, given the unruly union work rules and excessive benefits that have made U.S. automakers ill prepared to weather competition from more efficient Japanese firms.

The free-market Cato Institute's trade policy expert Daniel Ikenson argues that the bankruptcy has always been the best option for Chrysler: "For instance, the historically overindulged United Auto Workers might be forced to make more 'sacrifices' than being handed a 55 percent stake in the company." He is right. If U.S. automakers can't make the tough choices necessary to save their firms without tapping into taxpayers' wallets, then they should liquidate. There will always be other companies, whether they are based in Stuttgart, Hiroshima or Mumbai, that will fill the U.S. consumers' demands for quality cars.