



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

[fff@fff.org](mailto:fff@fff.org) [www.fff.org](http://www.fff.org)

## **The Bailout State** **by Sheldon Richman**

Ours is the Age of the Bailout. Bailing out failing companies is not new, but today the scale is unprecedented and the opposition is scant. The government today is committed to more than \$7 trillion in various forms of stock purchases, loans, and guarantees. The Treasury secretary has been given awesome discretionary power to buy bad securities or shares in banks. The Federal Reserve now lends money to investment banks, not just commercial banks. It is also now buying securities that have no market value.

The idea that in a market-oriented society there are profits *and* losses seems passé, at least if you run a large enough company. And most people seem to accept this.

Maybe we ought to think about what we are getting ourselves into. Do we really want to live in a country where people assume that business failures will be imposed on the taxpayers? Such an assumption would influence behavior in the worst possible way, leading to recklessness, waste, and falling living standards. Then, to minimize abuses, the government will be called on to regulate our economic activity even more than it already does. By logic the Bailout State leads to the comprehensive regulatory state. If we are going to catch you when you fall, politicians will say, we are going to restrict what you do in order to reduce the chance of your falling. Once the discipline of profit-and-loss disappears, the discipline of government will take its place. It won't be pretty.

Which brings us to the failed attempt to bailout the Big Three automakers. Did we really want a Car Czar in the United States? The idea should be revolting. From the television and newspaper reporting, you'd think General Motors, Chrysler, and Ford together equal "the U.S. auto industry." Every day we heard debate over whether the government should save this industry. You had to remind yourself that there are thriving car makers in the United States today. They have foreign names — Honda, Toyota, Nissan, Hyundai, Volkswagen, and more — but they build cars in America and are profitable. They aren't asking for handouts. As a matter of fact, the subsidies to the Big Three could have been regarded as aggressive protectionism detrimental to the foreign-owned competitors. Whenever governments in other countries do such things,

American competitors scream bloody murder. Would someone have brought a complaint against the U.S. government to the World Trade Organization?

No one expects a high level of economic thinking from the general public, and unfortunately its ignorance is encouraged by commentators in the mass media. In the public discussion of the proposed auto bailout, it was rarely asked what economic activity we'd have to do without had the Big Three gotten the billions they sought. If you ask the average person about this, he is likely to ask in return, "What do you mean?"

Like it or not, we live in a world of scarcity. A quantity of steel used to make a car cannot be used to make a washing machine. The same is true of labor and all industrial inputs. A firm is an arrangement of scarce inputs directed toward making a particular product. There are always many other ways we might use those resources. How do we decide how they are used? In a market economy, consumers register their preferences through the price system by what and how much they buy — and what they don't buy. Profit-seeking entrepreneurs rearrange the resources, to the extent possible, in order to satisfy consumers' most intense preferences first.

When a company is failing, it's a signal that consumers want its resources used by someone more competent or in some other way. But when government steps in and "saves" the company, it is telling us to shut up and be happy with how things are. Bailouts are the government's way of violating consumer sovereignty and wasting scarce resources.

That's why bailouts have no place in a free society. We are fortunate that, at least in the auto case, enough congressman said no.

*Sheldon Richman is senior fellow at The Future of Freedom Foundation, author of **Tethered Citizens: Time to Repeal the Welfare State**, and editor of [The Freeman](#) magazine. Visit his blog "Free Association" at [www.sheldonrichman.com](http://www.sheldonrichman.com).*

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