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CHATTERBOX

The Bailout Record

It isn't nearly as bad as you've been told.

By Timothy Noah

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In polite society, it is necessary to declare at regular intervals that whenever the government assumes control of a private corporation, it invariably makes things worse. Writing in the March 31 *New York Times* about the White House's intervention in the ailing U.S. auto industry ("For U.S. and Carmakers, Many Potential Pitfalls"), David Sanger noted, "In the past, the United States government had briefly nationalized steel makers and tried to run the railroads, with little success." But Sanger's own piece made clear that we never got to find out how President Harry Truman's 1952 seizure of the steel mills might have played out (he was trying to block a strike that he thought would hurt the U.S. war effort in Korea) because the courts ruled it unconstitutional. At the very least, Truman's action delayed the strike by two months, a period longer than the strike itself, which ended after 53 days. Ten years later, President John F. Kennedy successfully flexed his executive muscle to block an inflationary price increase by U.S. Steel.

Sanger didn't elaborate his railroad example, but in the March/April issue of the *Washington Monthly*, Phillip Longman points out that in 1976, the Ford administration took over the bankrupt Penn Central and five other railroads and turned them into the Consolidated Rail Corp. (more popularly known as Conrail), whose profitability under government ownership became an embarrassment to market fundamentalists in the Reagan administration. Eventually, the Gipper sold the thing for a mortifyingly high $1.65 billion. According to Longman, President Woodrow Wilson's nationalization of the U.S. rail system during World War I took an industry that was a "financial and physical shambles" and restored it to health. The government's creation of Amtrak in 1970 is a less happy story, both financially and as a model for passenger-rail service. But if Amtrak were to go out of business, it seems doubtful, outside the northeast corridor, that the unsubsidized private sector would replace Amtrak's passenger service.

Do government bailouts typically succeed or fail? ProPublica, the nonprofit news agency, reviewed the history in September. Its findings suggest that, at least during the past three decades, the results have been fairly encouraging. (Note: Not all the numbers that appear below come from the ProPublica report. Where they don't, I've provided links to the source.)

1971: The Nixon administration guaranteed $250 million in loans to the **Lockheed Aircraft Corp**. The government ended up netting the equivalent in 2008 dollars of $112 million in loan fees.

1974: The Nixon, Ford, and Carter administrations spent the equivalent of $7.8 billion in 2008 dollars to bail out **Franklin National Bank**, the 20th-largest bank in the country, eventually selling off its assets for the equivalent of $5.1 billion in 2008 dollars.

1980: The Carter administration provided **Chrysler** with $1.5 billion in loan guarantees. Chrysler finished paying off the loans in 1983. The U.S government netted the equivalent in 2008 dollars of $660 million.

1984: The Reagan administration assumed an 80 percent share of **Continental Illinois National Bank and Trust Co**. This remains the "most significant bank failure resolution in the history of the Federal Deposit Insurance Corporation," according to an official FDIC history. In 1991 the government sold off Continental Illinois at a loss to the FDIC of $1.1 billion. This was the bailout that bequeathed the catchphrase "too big too fail."

1989: The first Bush administration bailed out the **savings-and-loan industry** at a cost to the taxpayer equivalent to $220 billion in 2008 dollars.

2001: After 9/11, the second Bush administration lent the **airline industry** $10 billion and gave it $5 billion outright. A stock warrant provision in the deal netted Treasury somewhere between $140 million and $330 million.

There's no reason to believe *any* of these transactions took a bad situation and made it worse. The evidence suggests that the government tends to lose money when it bails out banks and to gain money when it bails out other sorts of companies. Conceivably, though, the *public* (as opposed to the *taxpayer*) loses more money when a big bank fails than when another sort of company fails because the person in question might have money deposited or invested directly in that bank or because the bank's collapse might bring down the entire economy. What this record doesn't indicate is that the government has *no clue* how to manage a troubled asset. Might the Obama administration still screw up in trying to save the auto industry? Sure. But don't assume history wills it so.

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