

In the Chrysler plan, the bondholders (who by the way are completely secured by assets) get to keep about 20 cents on the dollar and have no upside since they get no stock. The union, however, whose liabilities are not secured, gets about 80 cents on the dollar and all the upside since they would have a controlling interest (55%) in the company all by themselves. Is that really "shared sacrifice?" But yet in a press conference last week, the President scolded the "investment firms and hedge funds" for not accepting his proposal on how much of a haircut they should take and praised the UAW for their "painful sacrifice."

Like much of what the President says, it is the opposite of the truth. I think the "investment firms and hedge funds" (many of which are actually mutual funds) did the right thing. They are secured creditors and should do much better in bankruptcy than this deal. I also applaud them for standing up to this President, who is consistent in demonizing anyone who does not gleefully worship his every move. Notice that all of the bondholders who are controlled by the government (Citibank) or have taken TARP funds (JP Morgan, Morgan Stanley, Goldman, etc.) all supported the President's plan undoubtedly because they didn't have a choice since the government is on both sides of the table. But the "non-TARP" banks (that's what they are calling themselves) all opposed the deal.

Now, I know you are saying to yourself, didn't he support the TARP? Yes, I did, because our financial system was on the verge of absolute collapse and drastic action was needed, but now, we are beyond that. The government was never supposed to be anything more than a lender or passive investor with no voting rights.

In the GM plan, the bondholders are not secured. But still, the UAW gets 39% of the stock in GM and the bondholders get 10% even though the bondholders actually are owed billions of dollars MORE than the UAW is owed. Note that this is not the employees owning the company. It is the union. There is a huge difference.

Chrysler will get about another \$8 billion from taxpayers to get them through bankruptcy. This is basically a subsidy to preserve the union's majority interest.

You see what is going on here. Labor takes very little loss and gets controlling ownership (with the government) in the companies going forward so they can, in theory, get all their money back and more. Capital gets almost completely wiped out. In the age old balance between capital and labor which Adam Smith and others have analyzed for centuries, the Obama administration has declared labor the winner and capital out. Of course the fact is, both are necessary. So where does the administration get the capital to support labor? From the government. From taxpayers.

From you and I.