

“Chrysler: Are Jobs the Issue?”
by Milton Friedman
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In its high-powered campaign to induce Washington to bail it out, Chrysler Corp. has stressed jobs. Let Chrysler go bankrupt, the logic goes, and 500,000 jobs will be at stake—the jobs of the 130,000 people employed directly by Chrysler and the jobs of the numerous others employed by parts suppliers, Chrysler dealers and soon in remoter and remoter circles.

To put it plainly, this is hogwash. Bankruptcy is one thing. Idling Chrysler factories and assembly lines is a very different thing. A concern that goes bankrupt generally continues to operate under administrators appointed by the court, with instructions to recover as much as they can to meet the obligations that are in default. Many a company emerges from bankruptcy after an interim period to resume full operation as a private enterprise under new management and with a clean financial state.

Similarly, parts suppliers and the other enterprises now related to Chrysler will not stop operating. They will go on serving whatever Chrysler operations continue, as well as any automobile manufactures that inherit the business Chrysler loses. No doubt many of the related enterprises will suffer losses, along with Chrysler stockholders, but that is a risk they knowingly run in order to be able to enjoy profits.

Even if Chrysler did not continue to operate as a single enterprise, its facilities would not go up in smoke or go to wrack and ruin or even stand idle. If its facilities are worth using to produce automobiles, it will pay other automobile companies to buy and operate them, or new companies will be set up to acquire them. If Chrysler facilities are not worth using to produce automobiles, but have value for other activities, they will be purchased for those purposes.

If Chrysler is not bailed out, the facilities worth using would be taken over by people who would be risking their money in the belief that they can make more effective and productive use of them than Chrysler’s present management. In the process, they would create new jobs.

If Chrysler is bailed out, it will cost the taxpayer money. The cost may be hidden in the form of loan guarantees, but it is real nonetheless. It includes the possible loss if Chrysler cannot repay the loan. It includes also the slightly higher interest rate that the government will have to pay because it has increased its liabilities. Bailing out Chrysler will not change the total amount of capital available to the economy. But it will divert capital to Chrysler from other more productive uses.

Bailing out Chrysler would simply preserve unproductive jobs at the expense of productive jobs. However, the people who would be denied jobs by a Chrysler bailout do not even know who they are, so they cannot speak out to counter the self-serving claims of the firm’s present management.

The private-enterprise economic system is often described as a profit system. That is a misnomer. It is a profit and *loss* system. If anything, the loss part is even more vital than the

profit part. That is where it differs most from a government-controlled system. A private enterprise that fails to use its resources effectively loses money and is forced to change its ways. A government enterprise that fails to use its resources effectively is in a very different position. If Amtrak loses money, it is more likely to get a larger appropriation from Congress than to be forced to change its ways. Indeed, Congress may even instruct it to expand.

An enterprise may lose money for reasons beyond its control that are not likely to be repeated; or it may lose money because it is mismanaged. If it is possible to tell which, the market will distinguish. In the first instance, people who risk their own money will bail the enterprise out of its temporary difficulties; in the second, they will replace the management or force the enterprise to close down. Often it is not possible to tell whether bad luck or bad management is to blame. In that case, the market is likely to act as if it were due to mismanagement. That undoubtedly is harsh on some individuals and some companies. But it is highly beneficial for the community as a whole. It assures that resources are directed toward those enterprises that can use them most effectively.

This system produced the remarkable growth in the productivity of the U.S. economy during the past two centuries. Our increasing rejection of this system in favor of a government-controlled economy is a major reason why productivity in recent years has gone into reverse.

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