Marriott Student Review

Volume 3
Issue 4 *Blog*

Article 33

May 2020

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Recommended Citation
Scott, Nathan (2020) "The Problem With Government Bailouts," *Marriott Student Review*: Vol. 3 : Iss. 4 , Article 33.
Available at: https://scholarsarchive.byu.edu/marriottstudentreview/vol3/iss4/33

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The Problem With Government Bailouts

by Nathan Scott

Matthew Wilson was only 13 years old when his dad lost his job. It was 2008, and the world was reeling from the Great Recession. In order to cope with the loss of their father's job, Matthew's family used many different tactics to be frugal and survive throughout the crisis.

His father pawned his shotgun, his mother pawned her jewelry, and even Matthew pawned his PlayStation. They had weekly yard sales, went to food banks, and cut unnecessary expenses. They also took out loans with high interest rates—that was the only option available.[1]

The story of the Wilson family is one told by different families all over the United States; millions of people around the country lost their jobs in 2008. Even so, national banks, the companies that were hit hardest by the recession, were living in a completely different reality at that time.

These banks had taken out extremely risky derivatives, and should have been suffering the consequences of their actions during the crisis. Instead, on October 3, 2008, these banks received $700 billion from the U.S. government in the form of preferred stock investments. Despite the fact that the banks were looked at as the main cause of the crisis, they were given huge cash injections for small amounts of equity (ownership stake in the company).[2]

The same thing has been seen throughout the COVID-19 pandemic. American families have received only around 14 percent of the federal economic assistance that has passed through Congress; the rest of the money has gone to businesses. Additionally, provided that the companies use these government loans for certain payroll expenses, most of them do not need to be paid back.[3]

Our country is currently more than $25 trillion in debt; we should not be providing trillions of dollars of tax-funded money to businesses that didn't save up money for hard times. And when bailouts are absolutely necessary for essential companies to survive, the American people should directly receive equity in such companies after they are bailed out.

Setting a Precedent

The U.S. government has set a precedent that businesses need not budget or prepare for a rainy day; after all, the government will simply bail them out if hard times strike. For instance, by bailing out the banks in 2008, the government essentially told the members of the financial sector that they could make extremely risky investments with no consequences.

Banks are just as overconfident today as they were in 2008 that the government will provide for their mistakes, so they take out unprecedented numbers of loans and make risky loans to other banks in order to make money. They believe they are too big to fail.[4]

In 2020, the bailouts have extended far past the financial sector, which sets a precedent that businesses will be bailed out if anything bad happens to our country in the future. Here's the problem: while American families are being told (by economists) to budget and to have six months of emergency savings, American businesses are being told time and time again (by the government) that budgeting is not important. After all, think of how many businesses would have failed without the bailout money because they were not able to handle losing two months of revenue.

In other words, these businesses are being held to a lower standard of responsibility than the American people are; if the government continues to fund these businesses with no questions asked, they will continue to make risky investments and won't save the money necessary to take care of themselves.

Accumulating Debt

In the minds of people, debt is almost always considered evil; no one wants to be in large amounts of debt. In the business world, however, debt is seen as a blessing and a great option for those who need some cash.

When companies are bailed out, creditors are always repaid, and are therefore willing to make risky loans in the future. Since creditors don't have to fear lack of repayment, they continue to make loans to all the companies they want, regardless of the companies' credit. This leads to companies continuing to get into risky debt, meaning that at some point more bailouts will be required to keep those companies afloat. In short, bailouts essentially create an endless cycle of debt and more bailouts.

Creating New Shareholders

For some people, bailouts have some clear benefits. For one, when companies are struggling during recessions or from shutdowns like the coronavirus quarantine, their stock price drops. When companies receive bailout money, their stock price goes up. That's a positive for those who are currently investing in these corporations' stocks, which includes just over half of all Americans.[5]

The problem here is that bailouts offer no benefits to the other half of Americans who don't invest, even though the bailouts are funded by their taxes.

If the American people are called upon to bail out public companies, they should receive a cut of the benefits. The solution must be to give everyone a cut of equity from these bailed out companies.

For example, the 2020 CARES Act gave nearly $500 billion to big corporations;[6] the U.S. population is estimated to be 330 million, meaning each American should receive an investment of approximately $1500 in these companies. This would put power back in the hands of the American people and would help people and businesses equally.

Final Thoughts

Businesses should not receive special treatment over American families. Although the Wilson family was able to stay frugal, budget, and survive until Matthew's dad could find work again, millions of families continue to struggle every day.

There are two sensible ways to directly help the American people during this crisis. First, American families in poverty should get government assistance before big corporations get bailout money. Second, if bailouts are given to essential businesses, they should be given under the requirement that equity is given directly to American people in return. That way, public assistance stays in the pockets of those who need it most.

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