

Should federal government bailout the financial institutions and multinational co...

[Government](#)



1. 0 Abstract

The economy of every government depends so much on the revenues of the financial institutions and multinational corporations. The same organizations provide essential products and services as well as provide employment to numerous citizens. The federal government has come up with the Emergency Economic Stabilization Act to help shield financial institutions and multinational corporations from bankruptcy to avoid loss of these benefits. This move has however triggered debate as some refer the bailout as too much government intervention in the private sector. Supporters of the bailout maintain that Federal Government bailout is a positive move as it will protect the economy of the country from suffering a downward surge. This paper while incorporating the functionalism social theory seeks to establish whether the Federal Government should bail out the financial institutions and multinational corporations or not. The various arguments put forward by supporters and conservatives are well laid out in order to come up with effective conclusions.

2. 0 Introduction

The government of the United States in 2008 passed the Emergency Economic Stabilization Act which is meant to ensure a stable economy through helping out distraught firms to revive their operations (Economist, 2008). This act allows the treasury to spend up to \$700 billion in the rescue the financial and the mortgage industry. Controversies have surrounded the so called Uncle Sam's interventions arguing that the bailouts cannot be the solution to failing corporations since this will discourage productivity meant

to increase profitability in the companies (Schneiderman, 2008). This is among other issues brought forward by the bailout conservatives such as increased conflicts as more companies rush to try and get themselves a share of the money. Healy (2008) reported that some banks were already misusing the funds given by paying bonuses to top executives. The contentious issue however is that letting these industries fail would be of great economic threat to the country (Sternberg, 2008). Closure of financial institutions and multinational corporations would therefore not only have detrimental effects on the share holders of the failed organizations but also on the government and the citizens of the country. The functionalism theory effectively represents this scenario considering that needs of the society must be met in order to ensure survival of the system. The theory was chosen because it shows the importance of balance of the society's needs among them economic stabilization and market structures.

3. 0 Literature Review

The Federal Government bailout aims at helping out large companies in financial crisis and whose success is considered vital in the economy such that the companies cannot be allowed to close down. This has necessitated the bailout plan by the Federal Government. A tag of war has now ensued on whether this move is of any help in protecting a downward trend in the economy or on worsening it.

3. 1 Argument for Bailout.

Allowing the financial institutions and international corporations to go bankrupt could have far reaching effects on the government and in particular on the citizens who depend on these organizations (Economist, 2008).

Companies such as AIG, Chrysler, Ford, Fannie Mae and Freddie Mac should receive bailouts because they provide essential products and services for their consumers as well as provide numerous job opportunities to the citizens of the state. According to the supporters of the bailout plan, the economy needs rescue and helping out banks and other institutions in financial crisis will go far in reviving the economy as well. Take for example the case of AIG (American International Group) which received \$85 billion bail out loan from the government in 2008 (Economist, 2008). Why would the government not let the company close up? AIG can be described as 'too big to lose'. The giant insurance company provides insurance cover for major companies and individuals in the U. S and other countries. If the company went bankrupt then a lot of losses could be felt in the economy as millions of covers and policies go unpaid.

The government requires that company operations should achieve positive net value failure to which the government may force the companies into bankruptcy. This will therefore make companies to put in more efforts in reviving the corporations so as to be able to repay their loans. Barrack Obama in 2008 while addressing the emergency Economic Stabilization Act noted that if the bailout plans were well managed then the government will obtain the money back at a profit and this money would still go back to the citizens. This is to mean that the bailout program will give positive returns both in the short run and in the long run (Schneiderman, 2008).

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3. 2 Arguments against Bailout

Conservatives indicate that this is improper use of the taxpayer's money to revive firms going down as a result of their own mistakes. Poor management, recklessness and fraud have been blamed for the losses at these corporations (Quinn, 2009). The government now intends to cover up for their mismanagement by bailing them out which according to the conservatives is a wrong step on the side of the government in fighting fraud.

The same companies will now rush to the treasury to obtain the bailout funds without even attempting to clear up any messes in their balance sheets. After all, they are assured of an easier way out. This will only encourage laziness on the part of the management and curtail effective competition in the private sector (Quinn, 2009). The debate goes further to indicate that some companies for example AIG are using the bailouts to pay bonuses to executives (Healy, 2008). These are the same executives who caused the downfall of these companies.

Government assistance in any economy is only necessary when there is absolute instability in the financial system such that health of the economy is completely at risk. Schneiderman (2008) argues that the market has a self-correction mechanism in the free markets whereby the market favors good practices and eliminates firms with bad practices. Good practices will always ensure that worthy businesses get back on track after a financial slump. Involving the government therefore serves to discourage free market functioning.

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4. 0 Implications

The much debated issue mostly rests on the fact that different sides cannot agree on the best steps to be taken. Conflicting views will only continue to accelerate the problems being faced by the companies while no solutions are offered. The bailout of firms has both negative and positive effects. If well utilized, the plan could revive the economy of the country by preventing the major companies from closing up, preserve employment and ensure continued government revenue. On the other hand, misuse of funds given by the government may lead to loss of taxpayers' money in case the loans are not well repaid.

5. 0 Recommendations

The government has already established the bailout plans and therefore what remains is to come up with policies that will ensure that all the funds given to the companies are properly utilized so that the outcome will be better and improved productivity by these firms. The government should set up standards that should be met by all companies benefiting from the bailout to encourage positive value. Failure to do this will only lead to worse problems and the said companies may just end up in bankruptcy in the long run. The Conservatives and the supporters of bailout need to agree on the best policies to take in order to save the economy from further downfall.

6. 0 Conclusion

The importance of Federal bailout will remain open to debate as conservatives insist that the government should keep out of the private

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industry. It is notable that even with the continued controversy on the issue of Federal Government bailout, there is still more to be desired from each side of the discussion. The government's justification for the bailouts is being questioned by conservatives who in their arguments do not provide a more effective solution to the problem of failing firms that are of great importance to the economy. Companies which have already benefited from the bailout are significant in the economy such that their closure could have been quite harmful. What is required urgently is a solution to address the economic implications of failure of these firms if at all the Federal Government bailout is not the ultimate solution.

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