Handout 1: A Brief History of U.S. Bailouts

The U.S. Government has engaged in bailouts for nearly its entire existence. In 1792, Alexander Hamilton orchestrated what is widely considered the first bailout by propping up the Bank of New York and the Bank of Maryland with funds from the US treasury department. Through the 1800s and early 1900s various bank panics occurred with the government and/or private companies providing different levels of assistance. For the most part, these activities were largely focused on the financial industry.

Things began to change in the early-mid 1900s as the role of the government in the U.S. economy expanded. While the New Deal programs of the 1930s were not a traditional bailout, they did provide a new paradigm about how the federal government could be used to help entire industries, like housing, and the economy overall. In 1971, Congress passed the Emergency Loan Guarantee Act designed to provide government funds to any "major" business enterprise. Lockheed was the first recipient of this fund receiving $250 million in loans arguing that without the fund 60,000 jobs were at risk as well as Lockheed's position supporting the U.S. defense industry. Bailouts of Chrysler, multiple banks, the savings and loan sector, and cities such as New York City would follow this model over the next two decades.

The year of 2001 marked another significant development in government bailouts. After September 11th, 2001, the U.S. Airline industry – which at the time employed over 530,000 people – suffered a severe downturn in business. The Air Transportation Safety and System Stabilization Act authorized more than $15 billion in government funds to rescue the industry, including direct loans of more than $1 billion to several specific airlines.

These historic bailouts pale in comparison to the unprecedented 2008 bailouts related to the Great Recession. From September 2008 through the summer of 2009, the U.S. government provided more than $1.2 *trillion* of support to a variety of industries and companies. Notable parts of the bailout included a controversial $25 billion that went directly to the auto industry, more than $180 billion that went to AIG in four separate payments, large payments to Bank of America and Citigroup specifically, and $400 billion that was used to insure mortgages through the companies Freddie Mac and Fannie Mae.

In March 2020, the US Government issued its largest single economic support bill to date – a staggering $2.2 trillion. To be clear, not all of this money would be considered a bailout in the pure sense because it included things like direct payments to individuals and suspension of student loan payments. However, the bill included money specifically targeting certain industries. These payments included $25 billion to airlines, $17 billion to manufacturers (largely ones that make airplane parts), $1 billion to auto makers that could pivot to also making protective personal equipment, $150 billion for hospitals and as well as many other smaller, targeted payments.

All of this history leads to several questions: Should the government help private companies at all? Why specific industries? Is it the government's job to pick and choose which industries to save? What happens if the federal government lets crucial big companies fail? These questions will be addressed in the next portion of the lesson.

Sources:

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