



Is Corporate Bailout Ethically Admissible?

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ABSTRACT

The project applies the theories of Utilitarianism and Consequentialism to assess Corporate Bailout. The whole purpose is to analyze that the amount of money involved in the bailout can be used alternatively which may be beneficial for larger public. The article taking into consideration the case of Air India and raising some ethical questions will analyze and conclude that bailouts cannot be ethically justified on utilitarian grounds as the advantaged are lesser and disadvantaged.

KEYWORDS

Bailout, Philosophy, Utilitarianism

INTRODUCTION

Meanings:

Government Bailout: Cambridge dictionary defines bailout as a situation in which a government pays or lends money to save a company or industry from failing

Morality/morals- The moral beliefs, views and attitudes of given individuals, societies and groups – for example religious groups.

Ethics- Systematic reflections on moral views and standards (values and norms) and how one should assess actions, institutions and character traits.

CONSEQUENTIALISM

An action is the right thing to do in certain circumstances if, of all the actions available in those circumstances, it would produce the best outcome.

Act consequentialism is generally characterized as a certain sort of view about the relation between an act's rightness and its consequences. An act-consequentialist holds that states of affairs (outcomes, consequences) can be objectively or impersonally ranked according to their goodness and that any given act is morally right or permissible if and only if its consequences are at least as good, according to the impersonal ranking, as those of any alternative act open to the agent--the doing of an act being itself included among its consequences.

Consequentialism divides also into two major views:

Firstly, Egoistic and particularistic consequentialism whereby the point of consideration is on oneself or given group – e.g. one's family, fellow citizens/compatriots, class or race. Moral rightness depends on the consequences for an individual agent or a limited group and **secondly Universal consequentialism** where one takes into account how the consequences of an act will affect all the parties involved. Moral rightness depends on the consequences for all affected people or sentient beings.

UTILITARIANISM

"The only reason for performing action A rather than alternative action B is that doing A will make mankind (or, perhaps, all sentient beings) happier than will doing B"

Utilitarianism is the combination of a certain sort of theory of the good (as pleasure, happiness, or flourishing) and a consequentialist theory of the right.

Utilitarianism derives from 'utility' or usefulness. Morality is or ought to be useful. Most prominent philosophers of utilitarianism were Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873).

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An action is the right thing to do in certain circumstances if, of all the actions available in those circumstances, it would produce the best overall distribution of pleasure and pain.

The **fundamental principle** of utilitarianism is the principle of utility:

The morally right action is the one that produces the best overall consequences with regard to the utility or welfare of all the affected parties.

The right act or policy is the one that causes 'the greatest happiness of the greatest number' – that is, maximize the total utility or welfare of the majority of all the affected parties.

CASE STUDY- CORPORATE BAILOUT (THE GOVERNMENT'S BAILOUT OF AIR INDIA)

Corporate bailouts and different lesser varieties of economic policy have a protracted if but distinguished history within the North American country. The North American country sugar business has been protected against economic process since 1816 (Bovard, 1991, p. 71). though there's an excellent deal of resistance to bailing out failing companies in capitalist countries, exceptions square measure generally created. the foremost oft times given justification for providing government help to companies or industries in distress is that doing thus can forestall a good larger catastrophe. Bailing out the mortgage business can forestall a complete collapse of the credit markets. Bailing out banks can forestall a depression. Bailing out the automotive vehicle or industry can save jobs.

The underlying theory behind these arguments is utilitarian ethics—the greatest good for the greatest number or some variation of that concept. Bailing out the industries can prevent greater tragedies. There would be more negative effects, if the government did not come to the assistance of the industry, which was in trouble.

But is that actually true? What would happen if there have been no bailouts? This question is rarely asked except by economists who believe that market solutions square measure higher than government solutions.

The interaction between or among completely different sectors of the economy is commonly unnoted once politicians (or individuals within the distressed industry) advocate a bailout. This failure to look at all the consequences a policy has on all

teams, each within the long-term and short, is one among the main criticisms of economic theory social science (Hazlitt, 1946, 1959 and 1960; Hutt, 1963 and 1979; and Skousen, 1992).

BREIF HISTORY

Cash-strapped Air India has received equity infusion of Rs 1,375 crore from the government, the first tranche of the Rs 5,500 crore the airline is supposed to receive in this financial year from the government. The latest infusion will help the airline fund some ambitious launches over next two months — flights to Rome-Milan and Moscow.

Before this, AI had got Rs 1,000 crore in March. The airline has so far got Rs 14,575 crore — almost half of the Rs 30,000 crore promised as equity infusion till 2020.

When asked how long the Government would put tax payers' money into loss-making Air India, Mr. Singh said: "Air India will have to fulfil the tasks set out in the turn around plan and meet all the milestones" on a regular basis to get these benefits. Air India will have to be in line with the industry norms. The government will not continue to lose public money like this indefinitely."

ISSUE: WHY AIR INDIA IS SURVIVING ON A BAILOUT FUNDED BY THE TAXPAYER

Based on the utilitarian principle "*the right act or policy is the one that causes 'the greatest happiness of the greatest number' – that is, maximize the total utility or welfare of the majority of all the affected parties*", the acceptance/ utility of Bailouts can be analyzed taking the Air India case in hand.

Firstly, the major people/ institutions (stakeholders) concerned in the given case are:

1. Taxpayers
2. Government of India
3. Employees of the company
4. Shareholders
5. Air India

People/ institutions indirectly affected by the transaction are:

6. Customers
7. Suppliers
8. Competitors

Secondly, in order to quantify the principle of greatest happiness of the greatest number, I will be analyzing the effect of the transaction on the stakeholders.

• Taxpayers

Negative consequences: A considerable amount of money is in question. The probable result is thereby that other government projects such as infrastructure or welfare may be compromised.

The initial desired positive consequence: the industry and business environment would be more stable. The long-term desired consequences are stable to growing employment and a stronger economic community.

• Government:

Negative consequences: *moral hazard* i.e. one-person takes more risks because someone else bears the burden of those risks. Other government companies may take it for granted and take risk knowing that government will bail them out because they will be perceived to be too large to fail. Private companies will also have a say to the same.

Without bankruptcy, firms will evaluate risk incorrectly.

Positive consequences: unemployment will not skyrocket in aviation sector. Government will not have to pay unemployment benefits and there will not be a spiraling down effect on the economy.

• Air India:

Positive consequences: the desired positive consequence for the bailout is to continue or even strengthen its business, avoid bankruptcy, and maintain the company's reputation with customers. Although the bailout itself hurts the company's reputation, an actual bankruptcy could be worse for its reputation among consumers.

Negative consequences: government control in Air India's operations and the required changes that are painful and costly to make. However, a long-term consequence could be that the changes made would not be drastic enough. Even with the bailout, Air India may go bankrupt in the future anyway.

• Employees:

Positive consequences: The bailout is largely beneficial to this class. Lesser unemployment and greater credibility towards the company.

The same positive consequence applies to Air India **suppliers** and their employees. Uninterrupted production means more business and job stability.

• For **Competitors**, the bailout would be short term negative, because they may gain more market share. Losing out on that extra market share also has negative consequences for the people who work for the competition such as lower wages resulting from lower sales.

A similar applicable theory to the case is the idea of **Kantianism**. A Kantian would view Air India as being unethical, but due to the fact that the company disrespected its non-executive employees, tax payers, and investors. In Kantian ethics, equal respect means equal treatment. Clearly, there was not equal treatment in the case of Air India. The non-executives were not given the same luxury treatment, and the tax payers were forced to watch the company waste hard-earned money.

ETHICAL QUESTIONS

It is only the individuals who may be ethical or unethical. The process may be corrupt or unfair but it is ultimately individuals who give us the systems and the rules that we must follow as members of society.

Question 1: Is it ethical for government/ politicians to role out such big amount of taxpayers hard earn income on bailing out companies?

No bailouts fail the utilitarian test as discussed above.

Question 2: Is it ethical for these corporates to depend on the government to bailout their company?

Corporate executives have a fiduciary duty to maximize shareholder wealth. But they have other moral duties that go beyond their duties as a corporate officer. If the government acts as their agent they do not insulate themselves from moral responsibility. Based on the fact that government is earning millions of rupees from the taxpayers so that their employer can survive or prosper is not any different, in substance, from taking assets from the citizenry by force.

Question 3: Is it ethical for government to subsidize the sectors that does not actually require a subsidy or the sector that is not in distress?

Subsidizing is a common practice exercised in all the countries in some given sectors. A very general example is that of Oil Companies that actually received subsidy continuously even if they are making profits over the time. Farmers practically in every developed western economy, as well as in Japan, receive some kind of subsidy or protection from foreign competition. In all such cases, those helped represent special interests, a small minority of the general population. Such abuse of the governmental process is inherently unfair and unethical whether one applies utilitarian ethics or one thinks practically.

CONCLUSION

The above analysis clearly shows that company bailout doesn't meet utilitarian ethics. Such bailouts square measure inherently helpful to some interest at the expense of the overall public. They will never end the best range as a result of bailouts square measure negative-sum games. Many profit at the expense of the numerous. In an economic democracy, consumers have already voted on which companies shall survive and which shall fail. Politicians generally interfere with their fiduciary duty by benefiting a specific class of people on the expense of public in general.

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