



The Daily Dish

Are Warrants Warranted?

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Eakinomics: Are Warrants Warranted?

The Coronavirus Aid, Relief, and Economic Security (CARES) Act [provides](#) \$32 billion in grants and \$29 billion in credit assistance to the airline industry, as well as relief from excise taxation related to commercial air travel. As the administration, especially Treasury Secretary Mnuchin, sets up the rules for *how* all this is going to happen, a controversy has arisen over the terms of providing grants to airlines.

Let's go back to basics. The primary objective is to keep the airlines flying because they are an essential part of cargo delivery and the economy's supply chain. The [case](#) for supporting the airlines is that they are important far beyond the confines of their industry or sector.

The complementary goal is to keep airline employees on the payroll. As with other parts of CARES, the two-part strategy is to keep the businesses afloat so that the economy's infrastructure survives the pandemic and to keep paychecks going to America's workers to reduce the suffering of families across the country.

To accomplish the former, CARES provides loans and loan guarantees for the airlines, but these come at a price, including restrictions on employee compensation, a ban on stock buybacks and dividends for two years after the loan terminates, and the potential that the Secretary will demand warrants in exchange for the loans. (A warrant permits the holder to receive newly issued stock in the company upon demand.) A requirement for a warrant is hardly new. After the terrorist attacks of September 11, 2001, the airlines received loans and provided warrants in exchange; ultimately the taxpayer came out ahead financially as a result. (See my colleague Gordon Gray's excellent [analysis](#).)

To accomplish the latter, CARES provides grants of \$25 billion. The amount given to each airline depends solely on their payroll during 2019, the money may only be used to pay employee compensation, and airlines agree to no involuntary furloughs through September

2020. The focus is clearly on maintaining employment.

Nevertheless, the grants come with the same laundry list of restrictions as the loans: limits on compensation, no stock buybacks, no dividends, and the Secretary *may* demand warrants in exchange. And unlike the loans, the grant provisions are not like they were after 9/11. At that time, the grants were compensation for having the airlines be shut down. The airlines now have been effectively shut down by the pandemic, and the grants are compensation for keeping employment despite this fact. There is a good rationale for having grants, but there is no rationale for having warrants associated with them.

And there is a danger in using warrants in the grant program. If the airlines view this requirement as sufficiently unattractive, they may simply take a pass. The alternative is to file for bankruptcy protection, which would be a disaster. The planes would not fly - airlines have no customers, and the bankruptcy judge will ground them to conserve airline assets - and the economy would be damaged. The employees would run the risk of having the collective bargaining agreements re-opened in court. Far from protecting workers, warrants are a potential assault on them.

There is a simple solution. In issuing his guidance on how the grant program will run, Secretary Mnuchin should say clearly that warrants will not be part of the program. If Congress had wanted them in the grants program, the CARES Act would say "shall" and not "may." The right call is nay.