



The Daily Dish

Why Not Invest in Spirit Airlines?

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Although the deal has not been finalized, the Trump Administration continues to dangle the possibility of a \$500 million loan to struggling Spirit Airlines in exchange for warrants that would permit the federal government to own as much as 90 percent equity in the airline. Upon hearing of the possibility of aid to Spirit, Eakinomics' immediate position was: [no](#). It considered the merits of that position to be self-evident, but since a number of readers have asked "why not?" here is a short list.

First, there are already private-sector solutions available, namely a merger or acquisition of all or part of Spirit or a Chapter 11 bankruptcy restructuring. These are time-tested, conventional means of moving labor and capital from unproductive uses to a new, more profitable activity.

Second, the federal bailout distorts the air travel market. It rewards inefficiency - Spirit was already in bankruptcy - by insulating the airline from the consequences of its unprofitable decisions. Worse, it sets the precedent for rewarding inefficiency, tempting other airlines to be less prudent because they anticipate a federal rescue. Finally, it is unfair to help only one airline weather the fallout of the decision to attack Iran. Of course, the competitors noticed this right away and have their own [plan](#) to line up at the federal feeding trough.

Third, the Spirit investment would involuntarily expose taxpayers to risk. It might be that Spirit emerges from this episode as a successful commercial venture - indeed some administration officials talk about it as if it was a *fait accompli*. But it is not. Instead, it could be \$500 million down the drain. Now, if people want to take a risky flier on a failing flyer, they can simply buy Spirit stock. They voluntarily take the risk and live with the return. But having the federal government do it puts them in the position of living with a bad outcome with no choice.

Fourth, it uses the power of the state to allocate capital across uses. Ask the Soviet Union

how that worked out.

Finally, it sets Spirit up to have to manage political interference in its management decisions. Which routes does one add or drop - the politically favored ones or the profitable ones? And the spillover can go the other direction as well. Do we pursue this environmental (for example) rule-making knowing it will cut into Spirit profits? Or does the federal government drop it?

The bottom line is that the United States has achieved its economic success by maintaining a firm line between the government and the private sector. Crossing it is a bad idea.