

Robert Shiller Raises The Bankruptcy Issue

by John Hoefle

Most articles on the global economic crisis are little more than financial gossip, soap operas about financial institutions, and personalities, with very little, if any, substance. Rare is the article which addresses the systemic nature of the problems we face, and rarer still are those which dare to point out, implicitly or explicitly, that the global financial system itself is bankrupt. Thus, it is with pleasure that we read the article by Yale economist Robert J. Shiller in the Aug. 10, 2008 *New York Times*.

What Shiller does, most usefully, is to explicitly raise the bankruptcy question, and the issue of what should be saved and what should not, should a financial meltdown occur. Though he does it in a discrete way, Shiller puts his finger on the point that has long been a keystone of Lyndon LaRouche's emergency recovery plan.

Worst Case

Shiller begins with the observation that the viewpoints of the specialists and the various institutions are too narrow, that they have failed to alert us in advance to the array of potential problems we face, and that, "nobody seems to have a well-tuned plan to handle them. Given the threats posed by the financial crisis, a better framework for dealing with systemic crises is urgently needed. The policies recently instituted by the Treasury and the Federal Reserve to deal with the financial crises seem improvised, rather than part of a consistent, well-articulated policy."

That is a polite way of saying that the various groups of parasites are looking out for themselves, that "me first" is a shortsighted and foolish way to deal with a systemic problem, and that Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke are putting the welfare of the fleas ahead of the welfare of the dog.

"There is still a risk that financial dominoes will begin to fall," Shiller continues, quoting Bernanke that the damage done by the collapse of Bear Stearns "could have been severe and extremely difficult to contain." Bernanke's statement is worth some careful thought, Shiller says, and then he raises the question: "If the Bear Stearns crisis had such a potential for disaster, what will we do if a major hedge fund fails or if several crises happen at once?... What if the next case is worse?"

Shiller obviously suspects, if he doesn't know for sure, that the "next case" will indeed be worse, and says that "no one in government seems to feel a responsibility for warning about such possibilities and formulating a detailed policy for dealing with them." That ought to be a shocking statement, but after four decades of watching the Federal government protect the parasites at the expense of the nation, and seven years of blatant disregard of the public welfare by the Bush-Cheney Administration, it seems almost quaintly naive. But then, Shiller drops the bomb, in discussing how to approach the matter.

Bankruptcy

“Bankruptcy law is a good place to start,” he says. “After all, the dreaded financial meltdown would amount to a wave of bankruptcies.”

This is where it gets interesting, because the need to put the financial system through bankruptcy proceedings is the crucial issue upon which any resolution of the financial crisis, the larger economic crisis, and the danger facing mankind as a whole, depends. Without the admission that the system is bankrupt, and without the admission that huge volumes of fictitious assets and speculative bets must be written off, no solution is possible.

Shiller does not say this explicitly, but the point is implicit in the way he handles the subject. He quotes Jay Westbrook, a bankruptcy scholar at the University of Texas law school, as noting that bankruptcy law might need to be changed, in Shiller’s words, “so that in times of financial crisis, when more is at stake than the fate of individual companies and their stakeholders, troubled companies could be kept functioning longer. A subsidized system of triage would be needed to identify which companies should be saved, with the main criterion being the possible economic impact of their liquidation.”

Compare this to LaRouche’s policy of putting the financial system through bankruptcy, while making sure that the necessary functions of the economy are protected. Schools and hospitals will have to be kept open, police and fire services continued, the flows of food, gasoline, and other essential goods maintained: These are the sorts of decisions which will have to be made. The guiding principle is that people come first, that jobs, goods, and services which are necessary for the welfare of the population as a whole must be protected, while financial claims will be frozen and evaluated, to see what can be paid and what must be written off. Government credit, issued through the Treasury in accordance with the Constitution, will be used as necessary to finance these necessities, and to provide the funds to rebuild and upgrade our infrastructure and productive sector.

While Shiller never mentions LaRouche, it would seem obvious that he has reached a similar conclusion about where we are headed, and what must be done. By publicly raising the issue of bankruptcy, and the related matter of subsidized triage, he has brought out into the open a debate on LaRouche’s policies that has heretofore remained behind the closed doors of academia and

the institutional world. We welcome the opportunity this presents. As Shiller himself says in the final sentence of his article, “someone needs to do it.”

Death Spiral

What is bringing the issue to a head is the ongoing collapse of the U.S. and global economies, as the effects of the death of the financial system march relentlessly onward. With each contraction of the economy, there is less economic activity to support the mountain of debt, making the situation worse. Falling home prices, the reduction in the credit available to businesses and households, all increase the default rates, which creates more losses, triggering further defaults, as the economy implodes.

Throwing more money at the problem, as Paulson and Bernanke have done, merely increases the debt while doing nothing to improve the productivity of the economy—it is more of the same poison that is already killing us. Had the government taken the \$1.6 trillion in loans it has made to the commercial banks and investment banks through the Fed’s emergency loan facilities, and used that money to jumpstart the policies advocated by LaRouche, we would already be on the road to recovery—a long, hard road, given the severity of our problems, but at least we would be travelling in the right direction. Instead, we are paving the road to Hell, and calling it progress.

The only way to break this deadly spiral is to admit the truth, that the financial system is dead and will not come back, and that the trillions-to-quadrillions of debts piled atop our rapidly atrophying productive base, can simply never be paid. It may be painful to admit, but the alternative is guaranteed to be far more painful.

We can no longer tolerate economic policies designed to increase the wealth of the top percentiles of the population at the expense of the vast majority of our citizens, and the vast majority of the world’s population. People are dying, lives are being destroyed, our civilization itself crumbling. The news is all bad, and getting worse.

We have reached the point where the continued existence of large sections of the human race depend upon our coming to our senses, abandoning the policies which are killing us, and returning to the American System. We are already bankrupt, more so with each passing day. We should be afraid not of admitting it, but of the consequences of not doing so.