

Editorial

No More Bailouts; It's Bankrupt

U.S. Federal Reserve short-term interest rates are now lower than during the Great Depression; Alan “Rumplestiltskin” Greenspan has stamped his foot ten times since Lyndon LaRouche warned, in January, that Greenspan’s foot-stamping would not work. Japanese interest rates are at absolute zero, and there have been some 115 interest-rate cuts by central banks worldwide this year. The broad money supply measures in *all* the Group of Seven countries are rising at annual rates of anywhere from 7% up to 21% (the United States).

But despite these desperate efforts, the phenomenon seen in Japan in recent years has spread across the world—banks and financial institutions *will not lend* into any real economic investment. The lead investigation of our *Economics* section this week shows in stark outline the latest phase of the global crisis of the financial system: During the second and third quarters of 2001, banks “became unable to” lend new credit to corporations in Asia, Europe, and the United States. The existing credit already outstanding began to shrink, as more and more loans went bad or net repayment was compelled. And this was true for direct private investment as well—a global “credit freeze” is under way and intensifying, against non-financial firms operating in the real economy.

All the new money being pumped in at this phase of the crisis, by the Federal Reserve-led central banks of the world, is like so much forced hot water being pumped into a washing machine whose hoses are broken—it can no longer wash any clothes, but there’s plenty of liquidity evaporating on certain floors. The volumes going into stock markets are of no use to corporations already swamped under unpayable debts—they have to savagely cut their real expenditures in order to meet shareholders’ demands, so any increased buying of their stock now constitutes *the direct opposite of real investment* to those firms.

What is crystal clear in this process is that the only way to save the physical-economic assets of nations or of productive firms, worldwide, from destruction, is the

application of the principle of “Chapter 11” bankruptcy as enshrined in U.S. law at the outset of the Great Depression. The opposed policy—financial bailouts—cannot work even in the short term any longer: This is as true for the U.S. airline industry, as it has been shown true for the nation of Argentina. Public money pumped into a bailout, as a substitute for private capital fleeing out of all productive economic activity, simply goes to bail out the same creditors pulling their money out, leaving the productive capacity to die anyway. This is why Argentina’s blood-letting attempt to avoid default, led quickly and directly to—default. The same will be true in the case of the U.S. and European airlines, for example.

Yet “bailout or bankruptcy” is the choice always put before desperate governments, or industry employees; and most will stampede into line to support the bailout. They will give up wages or entire budgets to get a bailout, whose purpose is merely to pay creditors and shareholders to liquidate their investments. “We have to stay out of bankruptcy,” they cry, rushing straight into asset-stripping and, not far down the road, liquidation as a productive enterprise.

The global “credit freeze” stage of the economic collapse is a clear warning: time to stop thinking in “shareholder values,” and think instead of saving productive capacities and getting real new investment into them.

This takes Lyndon LaRouche’s “Chapter 11” strategy, of bankruptcy *protection* of productive assets and workforces which could otherwise be permanently lost in the global debt collapse. “The general rule,” as LaRouche put it in a 1999 writing, “is that useful production and distribution of needed physical goods, must be uninterrupted, and that essential institutions remain standing and functional, even if they might be judged insolubly bankrupt. Keep things which must function, functioning. . . .”

Applied to the entire collapsing system, that is the only principle which can revive credit and production.