The New York Times
nytimes.com

December 3, 2008

LETTER; Detroit's Liabilities: Two Professors' View

To the Editor:

Re "If Bankruptcy Hits Detroit" (editorial, Nov. 22):

Citing our statistics, you argue that General Motors' pension situation makes bankruptcy less palatable than new government loans, as taxpayers could face $23 billion in unfunded pension liabilities. While the figure you report is correct, we disagree with your reasoning.

A loan would not save the government $23 billion. It would still be responsible for the funding gap in a future bankruptcy that remains very likely, even with additional loans. Bankruptcy today would simply transform an off-balance-sheet government liability into an on-balance-sheet one.

Delaying bankruptcy would also expose the government to greater risk. G.M.'s pension fund could recover, or it could deteriorate even more. But since G.M. is never going to go bankrupt with a pension surplus, the government faces a lot more downside than upside.

Delaying bankruptcy in the hope that the pension assets will recover would be a classic case of gambling for resurrection.

Hiding liabilities off the balance sheet and gambling for resurrection are among the primary causes of the current financial crisis. This is not the time to suggest that the government follow suit.

Joshua Rauh
Luigi Zingales
Chicago, Nov.
24, 2008

The writers are, respectively, an associate professor of finance and a professor of entrepreneurship and finance at the University of Chicago Booth School of Business.

Copyright 2008 The New York Times Company | Home | Privacy Policy | Search | Corrections | XML | Help | Contact Us | Work for Us | Back to Top