

[Debt-for-equity swap](#) [1]

Written by [Anton Howes](#) [2] | Monday 16 February 2009



A creeping socialism, an encroaching bureaucracy and an alarmingly brazen protectionism are re-emerging, paralleled by the rapid erosion of our civil liberties and an increasing public appetite for a vengeful and often ill-informed "conventional wisdom" about the economic crisis.

The proponents of free-market capitalism and all who hold freedom dear now face a tumultuous period of reckoning. The significant gains made for liberalism over the past centuries must not be undone in the heat of the moment by the over-hasty actions of panicked politicians, clearly out of their depth.

Liberals and free-market capitalists are being derided by our opponents as having no plan, no agenda for reform to rival the rapid nationalisations, the promises of an age of responsible regulation, and the cringingly huge bank re-capitalisations.

Yet this could not be further from the truth. There are a number of sensible policies, ones that need not involve nationalisations, taxpayer guarantees, or "bad banks", and that need not threaten the savings of depositors, or load future generations with the heavy burden of debt and higher taxes.

Perhaps the most exciting measure proposed is the Debt-for-Equity Swap – the mechanism by which toxic assets are simply written off, with debts owed by the bank exchanged for equity so that the bank's good assets can broadly cover their debts. This simple measure leaves depositors unscathed; it could strip the entire system of incredibly complex yet risky assets, and without a penny of taxpayers' money being involved. The losers would have been the existing shareholders, who would see their shares become worthless as they increased in number – but this sort of deserved loss is already the natural price of failure in a free-market economy.

By ignoring such measures, we risk falling into the dangerous fallacy of only looking at the limited options that governments have already laid out for us, despite the fact that government is the least imaginative, least creative institution known to mankind.

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