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# Crisis of Solvency or “Double-dip Recession”

By Washington's Blog
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In an essay entitled “The risk of a double-dip recession is rising”, Nouriel Roubini affirms two important points:

> This is a crisis of solvency, not just liquidity, but true deleveraging has not begun yet because the losses of financial institutions have been socialised and put on government balance sheets. This limits the ability of banks to lend, households to spend and companies to invest…
>
> The releveraging of the public sector through its build-up of large fiscal deficits risks crowding out a recovery in private sector spending.

In other words, Roubini is confirming what Anna Schwartz and many others have said: that the problem is insolvency, more than liquidity, that the government is fighting the last war and doing it all wrong, and that we should let the insolvent banks fail.

Roubini is also confirming that incurring huge deficits in order to have the federal government itself act as a super-bank is causing a reduction in – and “crowding out” a recovery in – private sector spending.

As I have repeatedly pointed out, a recovery cannot occur until we move through the painful deleveraging process. But instead of allowing this to occur, the government is trying to increase leverage as a way to try to re-start the economy and save the insolvent banks. See this, this and this.

Of course, all of the massive government spending might also be putting governments themselves at risk . . . but that is another story.

http://www.washingtonsblog.com/2009/08/roubini-this-is-crisis-of-solvency-but.html

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