

Liability vs. expense



It seems odd to have to explain to a finance minister or prime minister the difference between a liability and an expense.

When the U.S. government guaranteed Fannie Mae, Freddie Mac and all money-market funds, it took on liabilities of about \$8 trillion, but so far there has been no significant expense. If the CR guaranteed all private bank deposits, there would be a large liability but no expense unless a bank actually failed. By going out of their way to belittle the efforts of their EU colleagues to avoid widespread panic that could end economic life as we know it, Miroslav Kalousek and Mirek Topolánek seem to be accepting that such a deposit guarantee automatically means an expenditure. This is irresponsible and extremely dangerous. They are acting as though failure of the banking system were a foregone conclusion. Another possibility is that they see the financial crisis as a way to consolidate the local banking market. Banks that came under attack by depositors could be quickly taken over and resold.

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