

NEO-FEUDALISM AND THE HOUSING CRISIS

A number of people have linked to the part of this Joseph Stiglitz interview where he says we won't fix the economy without some good old fashioned prosecutions. But I wanted to highlight where he describes the way our system of debt imposes a kind of indentured servitude on the debtors.

Can we draw a direct line from the outsize influence of the executives and the bankers – because these skewed incentives and penalties out of whack didn't just arise out of a vacuum. How did we get to where we are?

It's clearly the influence of campaign contributions and lobbyists. Let me give you another example of where the legal system has gotten very much out of whack, and which contributed to the financial crisis.

In 2005, we passed a bankruptcy reform. It was a reform pushed by the banks. It was designed to allow them to make bad loans to people to who didn't understand what was going on, and then basically choke them. Squeeze them dry. And we should have called it, "the new indentured servitude law." Because that's what it did.

Let me just tell you how bad it is. I don't think Americans understand how bad it is. It becomes really very difficult for individuals to discharge their debt. The basic principle in the past in America was people should have the right for a fresh start. People make mistakes. Especially when they're preyed upon. And so you should be able to start afresh again. Get a clean slate. Pay what you can and start again. Now if you do it

over and over again that's a different thing. But at least when there are these lenders preying on you should be able to get a fresh start.

But they [the banks] said, "No, no, you can't discharge your debt," or you can't discharge it very easily. They have a right, now, to take 25% of your before-tax income. Now imagine what that means. Let's assume that you wound up, as it's not that hard to do, with a debt equal to 100% of your income. You're making \$40,000, and your debt is \$40,000. You have to turn over to the credit card company, to the bank, \$10,000 of your before-tax income every year. But, the banks can now charge you 30% interest.

So what does that mean? At the end of the year, you've paid the bank \$10,000, a quarter of your income. But what you owe the bank has gone from \$40,000 to an even larger number because they're charging you 30%. So your debt is larger. So the next year you have to give a quarter of your income again to the bank. And the year after. Until you die.

This is indentured servitude. And we criticize other countries for having indentured servitude of this kind, bonded labor. But in America we instituted this in 2005 with almost no discussion of the consequences. But what it did was encourage the banks to engage in even worse lending practices.

We've made it so difficult for individuals to discharge their debt and have this fresh start, and yet it is just taken for granted that a corporation or a company can blow up and then they can file for bankruptcy and then they can start over.

We give rights to corporations that we

don't give to ordinary Americans. One of my proposals in my book *Freefall* – one of the ways to deal with this foreclosure problem, the fact that one out of four Americans who have a mortgage are underwater: They owe more money on their home than the value of their home. Their home used to be what they used as the reserve for paying their kids college education, for their retirement. Now it's a liability, not an asset.

So what I've argued is, we have these laws called Chapter 11 to give a fresh start to corporations. We say it's very important to be able to do this quickly, we want to keep jobs, we want to keep the corporation going as an ongoing enterprise.

Families are as important as corporations. Keeping kids in school, not forcing them out of their home, keeping the community together, is certainly as important as keeping a corporation alive.

He calls this indentured servitude, but I call it (because I'm also factoring things in like the privatization of security and decline of the nation-state) neo-feudalism. In either case it's an observation that people who used to be citizens have been turned into profit centers for the very powerful. Through a variety of means, these very powerful entities have secured the ability to oblige those profit center people to turn over large chunks of their worldly gain for the foreseeable future, and even though those powerful entities offer little in return, the people bound to them have little hope of escape. Hell, in many states, mortgages serve as a similar kind of legal bind to a piece of territory, one ultimately owned (if they can prove they have the note) by these powerful entities.

And as Stiglitz notes, a key to pulling this shift off is to write the law to favor the powerful entities and disempower the weak. And (as he points out elsewhere in this interview) to make sure that only those powerful entities have access to justice.

Yet, as a recent study made clear, the access to justice for the poor in this country rivals that of Mexico and Croatia.

In January 2008, well before the financial crisis became an emergency, I asked Chuck Schumer why Democrats didn't repeal the 2005 Bankruptcy Bill Stiglitz addresses above. I pointed out that repealing it might mitigate the problem of foreclosures and with it, stave off a larger crisis.

Schumer responded by saying we did not yet have the votes to make the kind of substantive overhaul that was necessary. We had to wait, he said in January 2008, eight months before foreclosures contributed to the the collapse of financial system, until 2009, when we had a larger majority.

We just lost the majority that Schumer claimed we would use to repeal the bankruptcy bill. During the entire time the Democrats had the majority, families were losing their homes in ever increasing numbers.

And yet Democrats never used their vaunted majority to stem the advance of neo-feudalism in this country.