

Bankruptcy

The current financial crisis in all sectors throughout the world has hit everyone quite fast and hard. The credit crunch has led to an increase in bankruptcy filings by companies as well as individuals and there is no clue about who will fall next. Bankruptcy indicates that either due to decline in revenues and profits or extreme decline in demand or in-house losses, the company is either unable to pay off its regular expenses or its pending dues.

As there is a credit crunch in today's world, the bankrupt company can indirectly also sink its lender company by not being able to return the principal or interest. Even creditors can file bankruptcy against a debtor for recovering whatever they can from the debtor. Some of the top companies in America went bankrupt in 2008 and these were Lehman Brothers and Circuit City. Even AIG, Merrill Lynch, Wachovia would have gone totally bankrupt had it not been for the bailout plan by the Federal Government in the US. The same goes for Freddie Mac and Fannie Mae, both of the bond insurer giants who were on the verge of bankruptcy due to their personal catastrophes in risky assets.

So, if so many companies are being bailed out rather than filing for bankruptcy, one question surely arises in everyone's mind and that is why not individuals? Just three days back, a NY times articles stated that Wall Street top executives had cornered more than \$18 billion in bonuses, where as the rest of the nation are getting [debt advice](#) and trying to consolidate debts.

This at a time when they were asking for bailout money for their companies from the Government. Is this justified? Many economists do believe that Bankruptcy may actually be a better answer than bailouts in the current scenario. Most of the companies in trouble are those who had taken extremely risky bets on loans, reverse mortgages and many other derivatives betting idiotically on the property boom. So it is but natural to let some of these fall to make sure in the future such companies understand what their fate could be if they were run irresponsibly. On the other hand there is another major problem. Already sinking of many great financial institutions has related to credit crunch, bank and credit card defaults, foreclosures, decreased spending and in turn decreased demand. This has led to job cuts and more decrease in demand. If these companies fall entirely, then there will be severe unemployment which may take years to cover up. So it is a choice between right and other right! But are job cuts really the answer for companies to cut their costs?

About the Author

Just three days back, a NY times articles stated that Wall Street top executives had cornered more than \$18 billion in bonuses, where as the rest of the nation are getting [debt advice](#) and trying to [consolidate debts](#).

Source: <http://articles.peuan.com>