Looming economic crisis in united states

[Countries](), [United States]()

On January 21st and 22nd 2008, world financial markets crashed amidst the fears of American economy slowly are gradually moving toward recession. The emerging markets world over corrected almost 20 to 30 percent while the developed financial markets of Europe and American corrected over 10-15 percent. At present the DOW is 20 percent below its July top a signal that financial markets are entering a bear phase. (Landler & Timmons 2008)

The paper will try to shed light on what is looming large on American economy, what are the policy or market failures which are taking the economy into recession, How the present Bush plan of stimulus will impact the scenario in future and will it be good enough to bring the economy back on track.

Main contributors to the slowdown of the economy

American economy is hit by numerous factors at the same time – growth slowdown, increasing unemployment numbers, falling retail sales, increasing trade deficit, weakness of dollars, emergence of Euro, housing crisis andfailureof financial markets. (Landler & Timmons 2008)

Housing Market – The housing market has been slowing down for an year now and most presidential candidates are suggesting ways on how American economy can come out this mess. The slowdown in the housing market is due to high default rate on mortgages especially sub-prime mortgages. During the credit expansion time post first Bush tax cuts banks and financial institutions lowered their vigilance on credit rating and in quest to expand market end up giving housing mortgages to shady borrowers.

Another reason why this happened was -moneywas easy to come and housing market was on uptrend so in case of failure of installment and foreclosure the banks and financial institutes were able to get the money back through increased price of the houses. But after the slowing down of housing markets real estate rates have fallen 5-10 percent in last year only and according to UBS it is expected go down by 15-20 percent more in coming year.

Increasing National Debt – the present national debt is around 9 trillion dollars which accounts for almost 65 percent of the Gross Domestic Product. Such high level of national debt increases the interests on payments significantly and reduces the elbow space of the government in tinkering with the fiscal policy.

In the past America able tofinanceits debt by weakening the dollar but now with emergence of Euro it has become increasing difficult to export the national debt to foreign institutions and countries which in past are happy to maintain huge dollar reserves. (Kjeldsen, 2002)

Increasing Trade Deficit – The profitability of American companies have grown over the past half a decade but the trade deficit hasn't come down. The main reason for it is off-shoring and outsourcing. American companies are making the most of low cost manufacturing and services in countries like China and India to boost their bottomline.

Low level of saving rates – In response to the main reason for credit card default rate one women respondent on CNBC summed up the saving rate of

Americans – " we all like to buy things, we all love to travel and we don't want to wait for it". Thiscultureofplastic moneyspending today paying later has brought down saving rates to alarming levels and it can significantly hamper the investment in the economy.

Increasing inequality among Americans – the last tax cuts provided immense benefits to the rich Americans and increased the income gap between the rich nation and poor nation. Hurricane Katrina exposed the underbelly of this growing inequality in the country and it will take years of corrective actions.

Financial Markets crash – America is financial market sensitive country by that it means that the wealth effect among American can be reflected by the state of the financial markets as more than 80 percent of the population invest in the financial markets. This has let the consumer sentiments down which is resulting in lowering retail sales and subsequently lowering employment generation. (Landler & Timmons 2008)

President Bush Stimulus Plan

President Bush has passed the stimulus plan of 168 billion into law, the stimulus plan will ensure money in the hand of real consumers in short time which will help in keeping the economy afloat by not letting the demand go drastically down. In the long run along with the tax cuts and stimulus plan the economy will able to get new investments which can bolster production and employment opportunities.

The stimulus package will start providing tax cuts after May and before that it provide a one time rebate of 600 dollars for the individual and 1200 for couple and an additional 300 dollar each for a child in thefamily. (MSNBC, 2008)

The stimulus plan may be a step in right direction but the challenges the economy is facing are fundamental one. With high oil prices and fears of inflation the tax cuts may end up fuelling the inflation in the economy resulting in more import of cheap products from countries like China which is maintaining fixed exchange rates.

Conclusion

At present the economy is looking down the barrel and there is a very slim chance that it will escape recession and more importantly a growth slowing down in next 2-3 years. America is fast graying and productivity going down with increasinghealthcosts, the times seems to be certainly tough in future. The one ray of hope is creating of jobs by investing in new technologies which America is historically good at.

References

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