

Discussion a solution to the problem of dealing with economic crisis



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References 5 Introduction The economic crisis which originated in late 2008 has seriously impacted the international trade between the countries. The level of exports has gone down as the countries are trying to cope with the financial downturn. There has been a rise in the unemployment levels. Many big business houses have collapsed or are operating with government aid. The government has announced stimulus packages for restoration of the companies which have suffered due to the current global fiasco.

Main part

The governments of various countries are trying to rescue the banks by providing them with fresh capital, relaxing credit norms so that the financial activities can be started afresh.

In order to find a solution to the problem it is important to understand the gravity of the matter. Most of the foreign assets are denominated in dollars and the value of the currency has further appreciated due to the investors winding off their position. This has led the foreign creditors to pull out their money from the country as the value of their debt is falling with the rising dollar. The values of the homes have dropped drastically due to auctioning and early foreclosures. The government can buy back the foreclosure and sell them at a discount to the construction companies with the condition of not building any new houses. This will put a check to the housing surplus.

The US trade deficit is very large. This is the result of US corporations outsourcing their production of goods and services. To settle these deficits the countries acquire US based companies, invest in real estate, purchase treasury bonds and invest in derivative instruments like mortgage based securities which are the main reasons for the spread of the financial crisis.
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These mortgage based securities precipitated the financial crisis. Since many institutions had invested in these instruments which were backed by customers with a bad credit record the default of the customers was inevitable. This calls for the regulation of financial markets. But here also caution should be exercised with regard to over-regulation or wrong regulation. To put a check to the trade deficits steps should be taken for indigenous production of outsourced services. The credit cards should be issued after a thorough scrutiny of the credit history of the applicant. Also, sufficient reserves should be maintained against the rising outstanding. This will prove to be a cushion in case the cardholder defaults in payment. This will also strengthen the banking system.

The government can also lower the tax rates and freezes it for a certain period so that the corporate agencies are encouraged to invest in new avenues. This will solve the unemployment problem, increase the confidence of the people and improve the business growth (Roberts, What Is to be Done?).

Conclusion

Thus, it can be summed up that mere stimulus packages are not enough to restore the economy; efforts should be made to strengthen the system so that it can cope with any kind of contingency. The financial system should be made robust by keeping sufficient reserves so that it can act as a support in case of non-payment.

References

Roberts, P. C. What Is to be Done? October 10, 2008. A Possible Solution to the Economic Crisis. GlobalResearch. ca. September 15, 2009 .