

Economic trends and the job market economics essay



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The last eighteen months have witnessed a worldwide collapse of the global economy resulting to loss of confidence from investors both domestic and international, from the household and corporate entities while plunging the economy to a long severe and a long recession. This is accompanied by a sharp decline of industrial production, retail sales; decline of the real Gross Domestic Product (GDP), employment levels declined leading to very high rate of unemployment due to companies, institutions and organizations lying of massive human work force from their operations. However, there have been efforts by economic policy makers to work out a rescue package in form of an economic stimulus in the economy in efforts to revive the economic activities in the market (Gregory & Marilyn, 2004).

These stimulus packages have been advocated for by the federal government with an aim of stimulating effective demand from the citizens through increased spending in the public domain a policy implemented by increasing government expenditure in the economy. Despite these promising efforts by the federal economic policy makers to stimulate the stagnated economy, the situation seem to move from bad to worst a scenario predicted to be unbearable since the Great Depression from 1929 all through to 1930s in the United States of America economy. The proximate genesis of these world economic turmoil traces its origin from the crash and subsequent collapse of the American housing market resulting to heave in mortgage facility defaults. These resulted to loss of million of dollars due to collapse of these mortgage services where many financial institutions had invested massive (Bernard, 2008).

The consequence of these down turn in the world economy with its origin in America has seen many of these financial institutions collapsing with the left ones struggling to survive. The scenario has created a mischief behavior in the market where financial institutions are conservative in extending credit facilities to each other besides the households and corporate entities in the economy. The global economy is withering due to the credit spigot closing across the world but mostly in America. Many investors have abandoned stock holding when faced with the reality of corporate earning especially trading in the stock market (David, 2008).

The economy is been upended by the ever eroding financial systems and institutions as a consequence of pressure mounted on the financial systems following poor performance credit cards and assets in commercial mortgage becoming sour. Therefore, the economic situation in the United States of America currently requires a consistent government intervention in aggressive manner. The United States of America has lacked precedent to respond to the financial crisis from the public policy response perspective. However the government through the effective policy responses to secure the housing sector took over two world giant mortgage companies; Freddie Mac and Fannie Mae making nearly all the mortgage held by citizens in to loans (Gregory & Marilyn, 2004).

This followed the government's input of approximately US \$ 700 billion to in form of ka Troubled Asset Relief Program resulting to government's sizeable ownership in the nation's financial sector and its institutions. Much needs to be done to reinstate the activities in the credit and money market where the monetary authorities are actively participating in the efforts while expanding <https://assignbuster.com/economic-trends-and-the-job-market-economics-essay/>

their activity level in the respective markets. Nin the Fed's attempt to lower down long term interest rates, it has devised and adopted a zero interest rate policy which it has reinstated to be operational indefinitely. A decisive policy of quantitative easing has also been drafted which involves printing money which is later utilized to procure securities and advance credit facilities to firms and corporate entities that utilizes their securities as a guarantee (Zeinab, 1999).

To rescue the housing industry, the federal authorities have not only acquired the running and operations of the two mortgage companies, but are also involved in the trading through purchases of commercial papers and the issued debts by Freddie Mac and Fannie Mae besides their mortgage securities that they insure. The Fed has announced plans to rescue the economic situation even more should normalcy in the trading activities fail to resume in a laissez faire environment. Fed is planning top start trading in Municipal bonds, corporate entity, long - term Treasury bonds and corporate bonds. The Fed's actions have recently responded and received well by the economic units in the economy (Bernard, 2008).

The interbank lending rates introduced by Fed aimed at increasing the credit flow in the economy to encourage spending through more government through monetary authority participants in the economic agenda of American economy. These efforts has resulted to a decline in the commercial papers and witnessed a sharp rise of new issuance. Residential rates in the mortgage industry have constantly fallen from over six per cent to below five per cent presenting renewed hope for the recovery process. The severe recession currently experienced in the economy has declined the benefits of <https://assignbuster.com/economic-trends-and-the-job-market-economics-essay/>

the efforts pursued by Fed and American monetary authorities. A lot remains to be done to restore confidence back to the economic units' dominant in the market activities (David, 2008).

Although there have been notable improvements in the economic activity levels, money market sector remains far from recovery due to its sensitivity nature. The Fed has managed to restore confidence in the sector with an evidence of inter - bank lending starting to gain momentum, the sector is far from normalcy. Financial institutions especially commercial banks are still conservative in lending behaviors and are practicing limited credit facilities to households and corporate entities due to their worries concerning the creditworthiness especially during such times of a severe recession. In addition, low rates prevalent in the mortgage industry does not show signs of home sector revival with consideration of the high and alarmingly rising unemployment levels coupled with plunging house prices in the economy (Zeinab, 1999).

Effects of economic down turn to the job market

During an economic down turn, a business cycle commonly referred to a recession, various economic indicators responds different. Production measured in terms of Gross Domestic Product (GDP) declines tremendously, investment spending declines, household incomes declines in real terms implying their reduced purchasing power, business profits falls, and inflation worsens, bankruptcies and unemployment rates rise tremendously. Since recessions are associated with overall decline in economic spending, governments and responsible monetary authority responds by injecting and

implementing expansionary monetary macroeconomic policies to stimulate spending (Bernard, 2008).

These components of expansionary monetary policy may compose of decreasing taxation, increasing government expenditure or even increasing money supply. During recession, the unemployment rates increases by an average rate of 1.5 per cent within a period of twelve months. Some economists have world wide adopted this indicator as a measure of recession in the economy. In the job market, the low - skilled, low - educated and young workers form the most vulnerable group to unemployment during a recession or a depression. Previous experiences have demonstrated that, job market is the most affected of other sectors in the economy by an economic down turn. For instance, during recession in the United Kingdom in 1980s and 1990s, unemployment rates took at least five years to fall back to their normal and original rates (Gregory & Marilyn, 2004).

While these scenarios of massive unemployment are witnessed, the social welfare of the affected people is greatly hampered especially those who were dependent on wages and salaries unlike those employees who were entitled to fixed incomes and welfare benefits. The unemployment scenario is always associated with families and social instabilities, decline in the well - being and deterioration of individual's state of health. For instances the current economic recession in the United States of America has witnessed over 63,000 jobs lost in one month, that is in February 2008 alone. In October of the same year, the Bureau of economic analysis (2008) reported a total number of jobs lost up to 156,000 (Laurence, et al., 1990).

The worst scenario happened for a span of thirty four years in the economic history of the United States of America in November 2008 when a total of 533, 000 job opportunities were lost. This recorded the largest number of single loss in three decades in the United States of America. Up to the end of 2008, United States of America had lost a total of 2. 8 million jobs. Following these economic predicaments, the unemployment rate grew by 8. 5 per cent in March 2009 totaling to 5. 1 million jobs up to march 2009. This number only represented one year jump recording the highest annual unemployed number of people since the end of the Great Depression (David, 2008).

Economic impacts on Motorola Company and its employee

The economic down turn in the world economy never spared any entity but it had detrimental effects to all sectors from agriculture, manufacturing, industrial, financial and service industries. Many companies carried out lay off programs where millions of workers lost heir jobs especially in America. The job market was the most affected sector as indicated above since the American economy lost over 5 million job opportunities. Motorola Company was neither spared in the recession since it suspended its monthly contributions to the retirement benefit plan dubbed 401 (K). This was with an economic objective of increasing and maintaining their savings of up to US \$ 800 million. The freezing of its monthly pension contribution was implemented to boost its saving program (Zeinab, 1999).

The company considering the economic hardships and reduced doing business proposed to reduce the hefty pay rewarded to its executives and mangers. The Motorola state of business is evidently slowing down;

unfortunately it is not the employees fault but the slow down may be associated with the strategies taken by company. Therefore the employees' welfare should not instead be the sacrificial component to save the company's state of doing business. In order to align itself with the norms governing the communication industry especially in the United States of America, the company resolved from January first 2009 to permanently suspend and freeze pension plans for employees denying them future retirement benefits and accruals. The only pension programs that were not affected by this move were the current and future retirees who continued to enjoy their benefits as earlier agreed with the company (Laurence et al., 1990).

The pension program for Motorola 401 (K) with effect January first 2009 was only suspended for unspecified duration of time. Employees were however allowed to continue with their contributions towards the 401 (K) plan but could not receive alternative contributions from Motorola Company. Other drastic measures announced by the company of detrimental effects to the well being of employees is the announcement made by the company that there would no salary increase throughout the whole year of 2009. Their top executive officers; Greg Brown and Sanjay Jha decided to voluntarily implement a 25 per cent decrease of their salaries during year 2009 to match with the business environment in America and across the world. The company also hauled the restructuring programs it had undertaken sending home more than 500 employees to boost cost saving plans (Gregory & Marilyn, 2004).

Conclusion

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Economic activities in the world has over the last two years experience a tremendous down turn which is described as the worst since the Great Depression. The proximate cause was regarded as the non performance of the United States housing sector which consequently led to the collapse of the world's largest mortgage companies Freddie Mac and Fannie Mae. Many people in the United States were caught up in the scenario of not in a position to meet their obligations to pay back the loans and the country experienced a nationwide loan defaults. The economy largely affected the job market sector since the economy lost over 5 million job opportunities. This is regarded as the worst unemployment rate since the great depression. Many companies closed down due to reduced level of economic activities resulting to implementation of drastic measures like those taken by Motorola Company regardless of their effects to employees (Laurence et al., 1990).

The company suspended and permanently freezes the pension plan for employees retirement benefit while suspending the 401 (K) pension plan to cut on costs and remain in business. Economic growth and recovery on the other hand presents the greatest benefits to the job market since human capital is paramount in the economy. Moreover, the government's implementation of both monetary and fiscal policies including stimulus packages targets the human capital for implementation giving a boost to the job market (Laurence, et al. 1990).