

# Bailout shq

Finance



The research paper sheds light on George W. Bush \$700 billion bailout package, the underlying cause of its release, expected effects, achieved results and future implication in mitigating the severity of US economy in particular and global in general. What makes it important? Economy contaminated, debts and deficits escalating, sprawling military, image tattering, all but accompanied with the emergence of a new league of Global contenders.

Is the American capitalism on the recede, do we see the fading American way of life? The demise of American dream, is the prodigious military might losing its edge, are the very foundations of democracy, freedom and justice debauched, has really the Global American leadership paled, is this the emanation of era of vacuity or does there lie hope of return anew? Thus the bailout package 'last in line of Bush legacy' bears importance not only from the economic recovery perspective but by shoring up the financial vessel' it goes a long way in retaining the unchallenged posture of USS enterprise globally.

It holds importance as it allows continuance of strings of recovery initiatives taken year back, in the absence of which the policy posture would not only lose its luster but the effort being applied to buttress the confidence would rather lose its very ground. What's going to be done in the paper? This paper would steer by discussing root cause that ruptured the great balloon while taking into account the amount and extent of damage the great spread have unfurled. This discourse would then lead by rounding up possible steps' those have been taken and are about to be, lead by their results and possible ramification for the future.

We would then highlight other venues and alternatives' featuring their pros and cons' thus rounding up our discussion with the present situation on ground lead by some anticipated prognostication about the future concurring outlook. What would be the general conclusion? Our general conclusion would be as vague as had been and exists to be the statistical forecasting models across the financial colossal and economic capitals. We are lingering on bits of every day stats and results while hoping to gain and engender confidence across horizon of politics, consumers, producers and investors.

We would be hanging around the ray of hope and light coming across the hazy fog of doubt and tentativeness. BODY Issue/problem In current situation when the Bail-out is out in the market to do wonders and clean up the mess created by all the wrongs and blunders of nearly a decade, just weeks into passing and the same ' gurus' conceive no less then a miracle from this quarter a trillion short' to halt free fall of economy into an abyss of recession. Full scale implosion has rendered shock waves that have taken tool on global scale, the burst of sub-prime bubble, spiraling commodity prices, wide scale collapses and deafening bailouts.

But pundits are still in a fix, as they state current spade of crumpling dominos as mere preliminary shock, precluding the greater quake yet to come. With nearly a trillion in bank losses, yet accounting for just a portion of the total conclusive damage' has brought financial juggernauts of the likes of JP, Merrill, Lehs, Fan & Freds on their knees and a long queue still in waiting, followed by staggering multi trillion in bail outs, yet the spiral sees no end. The roots

For the past two decades, Americans 'distracted' by the direction that its government showed, has been spending much more than they own or allowed by their means, which can be seen by a steady decline of their saving rates that stood at 11% in 80s to -1% today (Jeremy, 2009). The total debt owed by the public amounts to massive \$2.5 trillion without accounting the sub-prime fiasco (Stout, 2008). Of consumption patterns, last decade saw an enormous increase in spending' bumped up by soaring housing prices' though this had been the era of shrinking real wages.

Without the wage increases' riches were being made by selling homes without ever thinking that for how long this cycle would swing, as the point would ultimately reach when stalemate would occur, when people would be left with no money to buy expensive properties. Without such logical thinking, things went on moving so much so that the American home owners extracted nearly \$5 trillion since 2001 in various forms like refinancing their mortgages (Stout, 2008), home equity and selling till the dooms day occurred, when whole system based on faltered assumption on the lines of Dot Com collapsed.

The reason it has been called 'distraction' is the fact that the policies engineered by the government wrongly encouraged the public to tow the dangerous path of callous burning up of goods and services while giving birth to a banking system that fueled this trend, thus slowly and gradually the structure moved away from the production and sales, to the addiction of free goods and manipulation of debts. Its severity

But what can be seen are just the ripples of a much greater storm brewing underneath. The enormity of discomfiture can be sensed from the fact that;

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much touted Financial Bulwarks which had been the symbols of robustness of Western financial system' shattered one after the other under the weight of digressive mass that they them selves had accumulated. It's not just a coincidence that all major heavy weights' having Market capitalism worth economies of whole continents fell in a domino fashion.

Chain reaction that imploded out of stray atoms of greed and insatiability, proliferated all out radiation that not only destroyed what ever came in its radius of hazard but contaminated the wholeenvironment' with effects ready to haunt for decades if not generations to come. From appalling fall of the Lehman to assuaging of Freddie's, from taking over of Bears to engulfing of Lynchs, from engineering of Wachovia to warranting AIG, this is the League of Extraordinary Lineage that formed the first line of casualties and wiped out of the face of financial global map.

Institutions that bore the brunt of world wars, civil unrest and the jolt of nine-eleven couldn't hold onto the tremors of massive mortgage eruption. So immense had been the awe that the birth place of free market is forced to 'nationalize' the juggernauts of its economy, leaving far lasting scars on its own face. Whether they could ever be healed, doubt it! This patient needs an all out surgery... Key players US is the economy that is run by banks and its derivative financial institutions' thus it's the bankers economy.

This is the heartland of capitalism' the motherland of free economy and the greatest champion of demos-crazy. All this comes into being and blends up when we have a strong financial system making up its backbone. Banking industry spreading over a century has gradually formulated an environment where the resilience of economy rests on credit ' the practice of lending',

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thus making customers or more appropriately the consumers as being the second important tier of whole system.

Third comes the government that regulates, governs and looks after the regulatory fabric under whose auspices the system works. Fourth comes the wealthy foreign governments that lend their excesses to the US government, financial institutions and its people, acting as investors willing to quench unsubsidizing thirst of the whole nation. One way or the other' the complicity of all four players is there behind spurring the situation out of control and ultimately collapse.

And so is the ensuing blame game that is engulfing both the side of Pacific, where the Eastern coast (of pacific) blames the monetary glut of the west for the flow of excessive credit and hence slipping the market while commentators on the western front criticizes lax regulations that let the wall street and its giant entities to wreck internal havoc to their economy but slipping nullifying their own regulatory frame works.

Who ever was responsible' but one ground on which every body concedes is the let-go attitude of US government that let the bubble grow out of proportion' the blind eye they let to this fiasco to happen. On every front' it's the people (American tax payers) those are to suffer. They lost the credit, lost their homes, lost jobs, burdened their future and indebted their children. For all the follies committed on Wall Street ' under the auspices of government' and the preceding foreclosures and bailouts' these are the ordinary people who are going to pay for each penny being spent' form their own pockets.

What are they trying to achieve To intoxicate the contaminated body. Over the years' under lax or almost no rules and regulations, American banks and insurance and ' pre-insurance' industries accumulated charges worth trillions on their balance sheets, which were backed by literally nothing. Thus over the time' as the mortgage advances climbed up' it began to create a much bigger vacuum on their back that suddenly ended up in Boom! A shock that made the whole structure collapse under its own weight.

Now the government is trying to cleanse this mess, by buying mountains of crap ' bad assets' to clear up bank's balance sheets, keep them until the economy recovers and to sell them back to public when crap turns into something worthy! 5 Thus the underlying cause of this whole drill is to lighten up the bank's load so that they could get stand again and start functioning by lending. This is vital as banking industry forms the very backbone of US economy and without it their can not be any recovery.

This would lead of credit that serves as a fuel for other economic activities, the eased credit would halt the fall of other financial and industrial units thus containing the contagion from spread, this stabilization would enhance the investor's confidence that would ease up the investing and buying constraint that is the cause of pain from other side of equation. Thus the whole bailout or Emergency Economic Stabilization act is a move to stabilize the economy and retort the keel to its original location. Approaches Let us first segregate the two approaches being proposed by two different sects of economists into plan A and B.

The former being proposed by the Government and calls for its take over of the whole crisis, the later one to give market the stimulus to act and heal by

its own forces. Intervention on such a colossal scale is inconceivable in a country which had been the forefather of free-market and founder of capitalism. Instead of protecting the American Tax Payers, the elected lot seems hell bent in protecting a few. Despising any sanity what so ever, the American government is ready to buy the unsecured assets (otherwise valued at zero) for \$65, having a floating market value of mere 25 cents, thus paying 3200% more of their worth (Baker, 2008).

RTC (Resolution Trust Corp) made to trace and capture companies before they begin to collapse (Wilson, 2009). It has been created in light of the current Bail out bill that would allow the government to buy bad loans directly from lenders at lower rates that would relieve banks from carrying dead weights, restructure them and sell them off gradually as the market heals and stabilizes, thus mitigating an immediate and blunt affect to the economy and public. Yes, it worked in 80s and banking on its legacy it should work according to Government speculations' who says an agency is needed to oilify the chocked financial engine.

But this agency would work if we tow for plan A, the Bail out etc. What conflicts exists Starting form the fact that United States is the most indebted nation, with a burden of \$12 trillion and yearly obligations amounting \$500 billion (Bebchuck, 2008), having Forex reserves less then the tiny Taiwan, followed by record budget and trade deficits. To square all, United States economy was in a quagmire already and it's in ruination after the Big Bang. Various moves on part of Fed to lubricate the economic engine by throwing billions into the parched market seems of little or no help at all.



Melting down of financial bulwarks one after the other is evidence of enormity of damage followed by the deafening bail out plan. Isn't it absurd that US with no money of its own to even buy the Chinese toys is reeling towards this colossal move. From where all this money would come? Print it! No way; a near trillion worth of 'printed' Greenback into the market is going to burst yet another balloon of Inflation and nose dive the already struggling Dollar, leading to a chocking scenario. So what else? Borrow more!

Already a single country like China holding nearly a trillion worth of US securities would further make America' the world's strongest democracy defer to the largest communists (Harvey, 2008). But would they be willing to buy more of the crap US assets? Let's just forget the world, See who is borrowing. The US Government, but the Government earns nothing of its own. These are the taxes that make and run governments, so more borrowing means added obligations upon the people of United States and their Children and their Grand Children who are being held hostage for the blunders of their own obdurate corporations (Harvey, 2009).

Look at the Horizon and see the doom and gloom ? Bears Stern taken over by JP Morgan, Bank of America taking over the 94 years old Merrill Lynch, world's top insurer AIG pledging for its own insurance (Whalen, 2008), collapse of the 158 year legacy the Lehman Brothers, which had survived the Civil war, world wars, the 9/11 but couldn't hold on for this swap, all costing Fed hundreds of billions (Demyanyk, Yuliya S. and Van Hemert, 2008).

? Fed Liquidity Program, Economic stimulus package, Federal Housing Admin scheme and further injections has already amounted to \$1 trillion

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(Demyanyk, Yuliya and Van Hemert, 2008). ? The Bail out of Fannie and Freddie alone have price tag of \$200 billion (Bardhan, 2008). All but excluding yet another \$700 billion proposed bail out for 'securing' the faltering US institutions, amounting to a staggering total of \$1.8 trillion!! (Davidoff and Zaring, 2008)

The new bill is being floated to each American citizen, with the liability of \$5000 each, while keeping aside the \$11.8 trillion of 'previous' debt (Davidoff and Zaring, 2008). Now as far as the talk holds for going social or keeping the system capitalist, it doesn't matter which one operates unless the operators are responsible and sincere to the people who let them operate on their behalf. It is said that the corporate America seems best in capitalist mode as long as the system churns profits and it immediately retorts to being Socialized when faults surfaces.

In today's scenario when all the elements of a healthy financial system are showing pathological signatures of ailments which had been there for long time, but was let to grow to extent of tumor. Yes the Government should move forward as it is their job to cleanse the system of toxics and let the body heal by itself, but wait what we are seeing? Instead of letting the body to recover and reform in its very own 'natural' way, the surgeon general is transplanting the whole organs with 'expectations' that they won't be rebelled. What if they would!

Then hope the patient would survive. Potential remedies/solutions • Of all the argument, nothing said goes against capitalism and the market system whose strength can be seen in the spread of wealth and economic upheaval of billions of people out of poverty, but the most impressive of its geniuses is <https://assignbuster.com/bailout-shq/>

its greater healing capacity, the savior fair to purge itself of infections if any that might arise in its body. Today its like an ailing body which needs medication to the extent of strengthening itself and to mend in its own 'natural' way rather than forced ministrations

- There needs to be a global ruling body on the lines of UN that should govern and check world economies and corporations from detracting into directions that would cause harm on a global scale. So does the question that as to why despite all the warnings by European Central Bank officials, no preemptive or let's say preventive step was taken at first to check the bubble to expand to such explosive levels and then from a sudden burst? (Bardhan, 2008) If so why wasn't there no such levy erected to counter the incumbent tide of destructive tsunami

- There are more doubts than ever before that the market mechanism of supply and demand triggering 'fears' and the so-called jolting of 'confidence' of investors, leading to massive buying or selling sprees have grown to be shadowy. Proven recently from the Oil price fiasco, its rise and maniac fall clearly shows the manipulative force acting in an unruly fashion. Check the trend which is drifting more towards exploitiveness than genuine speculation (Murphy, 2008).

- The whole banking system should be reorganized and re-founded on a more solid and sound foundation, with revised rules and regulations to halt such a scenario from erupting ever again. Reinvigorating this industry could include equity investment, recapitalization of the bank assets i. e. purchasing the bad assets for cash that would help the fledgling industry with the much

needed cash while letting the government to exercise a limited control to steer the institutions out of the doldrums (Schwarcz, 2008).

- And off course the US Tax payers should not have been dragged to bear the brunt of the debacle and wrong practices of corporate world, which had grown to be voracious and hoggish in its never ending appetite of leasing and lending for windfall profits. Instead of throwing trillions into this engulfing black hole, people should be given relief by letting them pay back through jobs, raised salaries, slashed interests and extended pay back periods. In this respect the Mortgage assistance is necessary' this could be done in any form i.

e either the home owners be given leverage to pay back the borrowed credit by lowering of interest rates, making the payment schedule long enough that should not hamper the life style or the credit for ownership be converted into something like monthly rent' that would be nominal enough to ward off the burden and wouldn't render homes unoccupied. CONCLUSION General conclusion & Internal/External forces An incident that took place inside the United States has become a global issue. Thus its not the US alone that is shaping its course' there are multiple forces now acting on it.

Internally the new US administration has taken a shift towards more of stimulating the economy then to put all eggs in caskets of fallen juggernauts. There's more of realization in extending a helping hand to the Main Street then the Wall, as they believe in giving a push to the unconventional engines of economy to burn then to rectify the more conventional powerhouses' demise of which lead to this failure. Externally' all those capitals and their

financial entities that had any link in one form or the other has bore the brunt of the great crumple.

It's the sheer size of US economy that can not be ignored, the after shocks of the quake that jolted this land are still being felt across the globe, that transpired into several global integrated moves and till now' two G20 summits. Issues have now metamorphed and transpired into trade, barriers, national bailouts, global credit, energy...and is growing more complex. At the time when single combined stance is direly needed, there's temptation across the horizon for receding back and protecting own borders by raising the levies across frontiers.

The US with all its bailouts can not even come into being without foreign government's nodes to financethem, America can heal without others lending life saving medicament on credit. And as the fears grow for more nationalistic approach by the US government getting protectionist while confining its bailout money only to the made by American's industry, fears for back lash from across the shore' specifically the Pacific would be harmful. Today America needs world more then the opposite, the current recession has already altered focus and has dragged it away.

World has benefited and lately suffered from what came out of US shores, what matters now is' what comes in! What's the present trend? ' Glimmers of Hope' can best describe the present situation as stipulated by the current US President' supplemented by words of caution that the economy still needed time and a zealous effort to heal lest recoil. The statement might be true if put into context that the free fall is not that free now and things have begun to look less awry and not outwardly defiled.

Stock exchange can be seen to trek towards damage attenuation, SMEs are showing desire for loans thus setting forth the signs that they have begun to trust the banking entity ' again', tax reductions announced in all of previous packages would soon bear fruit by leveraging pay checks to ease' thus paving way for mortgage industry to palliate as it offers worthwhile deals because of the all-time-low prices (Spetalnick, 2009). Global economy has become immensely complicated to predict, overly complex to control and wild enough to steer, once disturbed' it listens to its own.

Economies have momentum; it can not be stopped and accelerated by the push and pull of pedals. So is the current situation, despite all the predictions and dooms day scenarios sketched by ' eminent' economist of the loomingDepression' the fall seems to lose it g! the burst seems to lose its steam and indications. Though the foreclosures are still there and so are the job and credit loses but they have simple lost the glitter. With bailout replaced by stimulus, the ointment has been replaced by healthy diet to kindle the body to heal on its own. What's speculation for the future?

" The American moment is not over, but it must be seized anew" Barack Obama, (McCain, 2009) divulging the very resolution that United States is not ready to subside rather it is there to retrieve the lost insight. USA stands to embark on a path to New Leadership with new vision suffused by common principles of humanity, security, justice and above all'equality, but how can it assume the burden of Global Leadership amid haze of thickening economic extremity? The new commander-in-chief has got a colossal task on his hands' would he be able to mould new leaf among the folio of history?

Dispelling the Doms day prognostication and economy-on-the-rupture speculations' there exist a fair chance that the United States economy would be saved and so be the world. No matter how deep the fissures go' sheer size of US economy would render it afloat, the world as we know today could not and would not let the economic colossal to collapse. Nevertheless on the realistic front, yes enormous amount of damage still roams across and severe confidence deficit exists both on the producer and consumer side' that could only be addressed by bitter short term moves and bolder long term policies.

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