

Bailout plan: \$2.5 trillion and a strong hand

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The article is disapproving of the way in which the government is silent on “ specifics” on how and where the money from the stimulus package is going to be spent.

From an economic point of view, the government is well within its rights to print more money and flood the economy with liquidity. However, it would be prudent to consider the inflationary effects of such a move. Further, the direct involvement of the government in the running of the banks may be a welcome sign in these times when reckless corporate greed and unethical behavior have undermined the credibility of financial institutions in the United States. The effect of such government intervention may not be exactly in the spirit of laissez-faire economics but the current situation is that it would not be a bad idea if the rampant speculation and recklessness are reined in.

This paper is in response to the article, “ To Fix Detroit, Obama is said to drop plan for ‘ Car Czar’” that appeared in the New York Times on Feb 15, 2009. The article discusses the cancellation of the appointment of an ombudsman to oversee the restructuring of the Big Three automakers: GM, Ford, and Chrysler. Instead, the article points out that the president himself would like to oversee the restructuring of the troubled automakers and thus there is no need for a “ Car Czar”. The article is economic in nature as it pertains to the rescue of GM and Chrysler from near bankruptcy and their bailout under a federally guaranteed scheme.

The article discusses the efforts of both GM and Chrysler to stave off bankruptcy and instead use the federally mandated funds for getting themselves out of the financial mess. There is also a discussion about the ways in which they have borrowed funds to meet their working capital

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requirements. The reason that these companies have managed to borrow in these times when the credit squeeze is on is because of the federal government standing guarantee for their borrowing efforts.

From an economic point of view, the automakers have to become competitive and stop relying on subsidies and other forms of assistance to ward off competition from foreign cars that are much more energy-efficient and cost-effective. The only way that this can be done is by a complete overhaul of their organizational processes and manufacturing methods and an increased reliance on R&D to see them through. This is consistent with President Obama's campaign promise of moving the US towards an energy-efficient "green economy" that is geared towards meeting the energy challenges of the future.