

Recession And Stimulus

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Recently the markets are doing extremely well where the indices grew by 3-4% and that was great; my portfolio got a much needed kick. However, I cannot help to wonder about those millions of people that are unemployed and cannot even fathom the use of the markets to grow wealth for themselves and their families. In fact they are much more concerned about losing their unemployment benefits than anything else. I had a conversation with a very good friend of mine in the US who is unemployed and she went on and on about more stimulus and why she and other unemployed should not be used as a political football in an election year and that their elected officials should put politics aside and do what is right. Of course out of compassion I agreed with her but her questions got me to thinking so I did some research into more economic stimulus and what this would mean for American families.

Of course a lot of scholars are saying that this is the worse economic downturn since the depression in the 1930's so that is where I started to get a sense of where we are right now. Herbert Hoover who was President during the early part of the crash decided that the best course of action was to implement an austerity plan to reduce government debt and this will in turn stimulate the economy and get Americans back to work. For obvious reasons this did not work all you have to be is a student of history to know that this was true. I also do not have to tell you that Hoover was voted out of office and was replaced with Roosevelt.

Roosevelt took a different approach and used great governmental stimulus to get people back to work and for the most part his plans worked. Growth was slow at first and it was argued that Roosevelt should have launched a larger stimulus plan and it was as fate would have it the outset of WWII that was the real driver of economic recovery. Now I am not suggesting that we start another world war but what I am suggesting based on historical context is that the government plays a significant role in providing jobs.

Let's come back to where we are today, economies are more connected than ever before and right now what is happening in Europe and beyond is triggering fits of doubt and uncertainty of businesses and consumers alike. We are not spending we have shrank from participation in the economic flow for good it almost seems, not knowing that this pull back is contributing to our economic pain. Europe is now engaged in wholesale austerity plans where they are spending less in the hope that this action would turn things around long-term. However, economists have feared a double dip recession as a result of this action. Others are concerned that we are on our way to a third depression and perhaps the worse in history. I am not a fortune teller and although I am an MBA student and have a keen interest in economics I cannot tell the future. However, what I do know is history and history dictates that we should engage ourselves in more economic stimulus.

Let us look at today's economic stimulus packages, some will argue that they did not go far enough and others will argue that they did not work at all. What I want to do here is focus on the family that still has a job or income still coming in. If the economic stimulus package was not put into place do you think you will still have your income? If the stimulus package was much smaller do you think you would still have your income? Those of you who have been unemployed long-term do you think you would have had that safety net renewed again and again? I can substantiate all these questions for you, my unemployed friend's benefits would have run out a long time ago without the stimulus package and a lot of my other friends who are in respectable positions in businesses, would have laid -off more people and possibly gone out of their job themselves without the stimulus.

The point to this argument is that wholesale austerity is not the answer and arguing austerity for the sake of political gain is suicide for all of those who live in US if not the world. Now I do not live in a bubble and I do know that government debt will have to come under control but as it stands right now the government is the only real entity that can stave off a depression. Are you ready to go into a depression? I am aware that there are about 15 million people out of work; well triple that amount if US go into full fledged depression. That is 45 million people out of work and possibly more than that! I do not know about you but I don't know a politician that has the political courage to explain why they did not do all they could have done to prevent a depression. Well if that is the case then why are so many governments feeling that reducing deficits is more important than getting people back to work?

Let's put it this way, when someone is out of work they are not spending money. If we continue to hear about how bad things are from the press and analysts that are paid to track economic stories what do you think the rest of the people who do have income coming in are going to do; they are going to spend less! Don't get me wrong I do believe that saving has a place in the American fabric and I do like the idea that everybody is becoming more prudent with their money but they are not spending at all in a lot of cases and this is killing economic growth and is not getting people back to work. So what can be done; economic stimulus is the answer for the short-term. In fact I would go as far as to say that they can do both stimulus and some austerity but they have to have the political will to do this and they are all going to have to give up something.

The problem is that I don't know one American that is willing to give up something to benefit the whole nation, not one! Please forgive me for being cynical but the political climate for the past three years has been ridiculous and self serving for the good of one. Perhaps that is the problem all along and the reason for their predicament now. Selfishness has too much power

right now and approving another stimulus to benefit all of the population is too benevolent on the part of the American people and perhaps for all.

REFERENCES

1. <http://en.wikipedia.org/wiki/Recession>

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