

## Getting back up

By Aditya Dargan

The US economy is the largest and most powerful economy in the world. The American economy has fostered many new innovations and technological advances that have driven the world forward. In the past few years, however, the US economy has been in poor shape because of the housing bubble and the increasing amounts of consumer spending. These events have led to the biggest recession since the Great Depression. The financial crisis and recession in 2008 made a huge impact on the global economy and the common folk of America, evident even today, due to the carelessness of Wall Street, and the gradual affect of new programs and initiatives taken to get the economy back up again.

The start of the recession was marked by a series of events. In late 2008, the ball had started rolling. Two big financial firms: Citigroup and AIG got into major trouble because they were unaware of the risks they had taken.

The two divisions at AIG that brought down the firm- financial products and stock lending- didn't understand what they were doing. Financial products they wrote were credit default swaps that they thought were riskless but turned out to be ultra-risky. The stock loan department took the cash it got for lending out stock owned by AIG and invested the money in esoteric securities rather than in risk-free treasuries. When the esoterica, which the stock-loan folks thought was riskless crumbled, so did the firm (Sloan 3).

Later, Wachovia was taken over by Citigroup and the Federal Reserve "joined other central banks in injecting more funds into credit markets"( Lueck 1). Markets were affected as well. The Dow Jones Industrial was lower because of fears of even more bank failures and it finished down 7 percent to ten thousand three hundred sixty five (Lueck 1). Many other markets were down as well and Japan's Nikkei plunged 4 percent (Lueck 1). The stock market spiraled downward with the "no" votes in the

lead as traders watched the slowly changing tally (Lueck 4). Democrats and Republicans had voted for the plan, but the plan was rejected because of the higher number of “nay votes”. There is a chart on page 5 showing the numbers of votes that said yes to the bill and the number that said no to the bill. It is clear that more people rejected the bill than those who said yes.

Among democrats 140 supported the bill and 95 voted against. Support among Republicans, who had revolted against an earlier iteration of the bill last week, was at the low end of what was expected by House Republican leadership, with 65 in favor and 133 against. One Republican, retiring Rep. Jerry Weller of Illinois, did not vote. No votes were cast by House members from the poorer districts, including members of Congressional Black and Hispanic caucuses (Lueck 2).

After the bill’s failure, both parties were blaming each other. (Lueck 3) Democrats blamed the Republicans because they had failed to put in enough votes to pass the bill (Lueck 5) “Conservative House Republicans, however, demanded additions to make the bill more ‘freemarket’” (Lueck 3).

The effect of the recession was evident in the months after it had started. Some of the short term effects shocked many people who had thought that something like the Great Depression would never happen ever again.

Real wages for most workers have been stagnant for a generation or more: household debt is rising as a proportion of disposable income; unemployment has climbed; labor force participation is falling; health care benefits, pensions, and government services to the population (including education) are all in decline (Foster 74).

Average Americans have had to suffer the consequences of the super low interest rates the Fed has placed to encourage banks to lend and to get commerce flowing (Sloan 4). Low rates seem nice for lenders and borrowers but they are terrible for savers and retirees who used the interest income for Social Security (Sloan 4) The huge spread between the richest and poorest has reached astronomical

proportions: the top 1 percent of the richest own more than four times as much as the bottom eighty percent of the population. ( Foster 85) Long term impact of the recession seems positive since people and companies are changing for the better. Constructors are now building simpler, smaller and better houses ( “Hope”) 1.Banks are predicted to have thirty two percent declines in first quarter before doubling their profits for the year (Schlangenstein 2). Americans are picking cars instead of trucks; utilities are being told to use more renewable fuel (“Hope” 1). Car companies may report earnings growth of 78 percent in the first quarter ( Schlangestein 1). Intel may have a 38 cents per share profit in the 1<sup>st</sup> quarter ( Schlangestein 2). Telecommunications, however, expect a profit decline of 1.3 percent for the year (Schlangestein 2). Mindsets have changed. Americans are saving more than before and spending less ( “Hope” 1). American firms will have to buy less and sell more to the world, not the other way around , in order to turn things around (“Hope” 2).

There were some things that were implemented to combat the crisis. One such program is called TARP. TARP's aim is to encourage financial institutions to lend again by depleting the toxic mortgage-backed securities, which lenders feared would cause borrowers to default (Lueck 1.) The cost of the TARP plan was seven hundred billion dollars (Lueck 3). Foreclosure prevention programs were set in place as well. The Obama Administration announced programs that will help homeowners avoid foreclosures , even those who owe more than there home is worth (Christie 1). “The plan increases payments to lenders that modify second mortgages”(Christie 1). The Treasury pays for the plan by using thirty billion dollars already set for housing programs( Christie 1). Wells Fargo, the biggest US mortgage lender, continues to aid the government effort to of foreclosure prevention( Christie 2). The use of debt has also played a vital part in the recovery process. Debt in government and private sectors boosts the economy because when banks lend money to individuals to purchase items, commerce occurs which probably would not have occurred otherwise (Foster 44). Financial institutions own a large amount of US debt to make money and that money makes both the lender and the institution more

money, which propels the economy forward (Foster 54). Sloan suggests that breaking up the institutions that are too big to fail would prevent future meltdowns (6). Washington's imperative is a medium term plan which will reduce the deficit and calm bond markets down and hold down long term interest rates ( "Hope" 3).

Public opinion about the crisis differs from person to person. Some think that the government is responsible and the banks caused the crisis. One person, however, suggests that common people played a part as well.

Main Street is not a totally innocent lamb in this. Yes, the green heads tempted us with mortgages and other products we could not afford. But you could have said no, as many of us did. And you could have tried to live within your means, or, better yet, below them instead of falling prey to financial fantasies (Sloan 2).

Sloan says that the firms collapsed because incompetent CEO's didn't get what they were doing and were influenced by greed (3). People do not seem happy about Wall Street either. In a recent *TIME* poll, 75 percent say Wall Street will go back to being normal, 67 percent want the government to force pay cuts, and 59 percent want more government regulation (Sloan 1). Christie Rebecca portrays the feelings of an average homeowner.

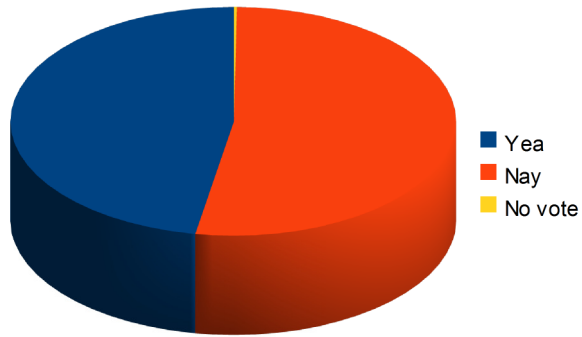
We are greatly disappointed and disheartened that the Obama Administration is offering little hope to unemployed homeowners facing foreclosure. Why do they offer big banks billions in loans in the TARP bailout program, but zero in loans to Main street unemployed house owners? (2).

Many firms think that bank involvement will limit foreclosures more than what the government is doing. (Christie 1).

I think that the crisis is still not over, because of the very high unemployment rates, but it is

getting better. The Dow Jones is beginning to bounce back up again. There is not really one person or entity responsible for the crisis, so in my opinion, it is everyone's fault. I agree that the banks should have known lending out risky mortgages is a bad idea, but mortgage owners should have had some common sense when thinking "Can I really pay off this mortgage?". The government should enforce more rules and the Securities Exchange Commission should heavily regulate the big banks. People get mad at the banks because they got bailed out and the paychecks were big, but if they were not bailed out, wouldn't it be worse since people would lose their life savings? I think the huge pay checks are necessary to keep the CEO's at the top of their game. All in all, the US has hopefully learned what it did wrong and will avoid it in the future. Let's learn from our mistakes.

Pie Chart of the initial voting of TARP



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