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Economic Recession

The world economy recently came out of the worst recession since the Great Depression of 1930, albeit some countries in the Euro zone region are still grappling with the vagaries of the economic recession and financial crisis that hit the region from the year 2007-2008. The Economic Recession of 2008 was caused by a housing bubble burst that occurred in 2006, as value for homes drastically plummeted below mortgage values, causing home owner immense loss of wealth. Siegel reports that Prof. Robert Shiller of Yale University found out that for a period of 61 years, 1945 through 2006, housing prices declined by an average rate of 2.84%; as a result of this low volatility in the housing market, a mortgage security was deemed as a diversified and secure portfolio of loans. The increased home prices was to act as a guard against the loan as the underlying collateral, home, would cover the principal amount in case a subprime borrower defaulted. Unfortunately, in the year 2006, housing prices reversed and instead of maintaining the historical rise plummeted resulting in huge losses to borrowers as they could only sell the houses below the mortgage loan value, resulting in foreclosure. The widespread foreclosure caused panic among banks that had bought subprime mortgage securities on the secondary market, as they were worthless. Banks grew wary of lending to each other for fear of exposure to the worthless assets; this led to the closure and nationalization of banks and other financial institutions as many institutions were declared bankrupt. These events led to the worst Economic Recession since the Great Depression of 1930.

Economic recession is triggered by a slump in GDP (Goss Domestic Growth) growth, which is a manifestation of a slowdown in industrial output, shrinking housing prices and unfavorable business and investment environment (Obiel). Due to these triggers, the effects of recessions are high unemployment rates, bearish stock market performance and increased layoffs. In a recent opinion article appearing in the Wall Street Journal, David Malpass who was a deputy assistant Treasury secretary in the Reagan administration, and currently the president of Encima Global LLC argues that the United States of America's "Economic signals point to a 2013 Recession."

Economic Recession in 2013

According to Malpass, the recently released data from the Commerce Department indicate that the United States of America's economy is headed for a recession. The author based his argument on the fact that manufacturing order slumped by 13.2% in August and inflation adjusted personal income was down by 0.3%. Similarly, Mathews argues that a decline in manufacturing orders is an indication of imminent economic recession. Malpass disputes President Obama's assertions that the US economy is on a recovery path and should be given more time to bounce back as the policy framework takes prominence. Malpass in his supporting arguments for a likelihood of Economic recession in the year 2013 observes that the economic policies being spearheaded by the Obama administration have discouraged private investments, eroded business confidence, diminished employment opportunities and shrank median incomes. Among the policies that have adversely affected the US economy include deficit spending, government control over the US economy and dependence on the US Central Bank to lend to the US government, thus discouraging private investments that create jobs. Malpass opinions that what defines the current economic times is fever for investing in government bonds and gold due to a reverse of American principles of growth and prosperity by the Obama administration. Maps continues to criticize Obama's administration for adding to the national debt and the near zero interest rate regime perpetrated by the Federal Reserve meant to favor the government's borrowing scheme at the expense of investors, mainly the private sector savers. The author, therefore, feels that the notion that the U.S economy should be given more time to fully recover is misleading, and the growth is hinged on excessive fiscal and monetary interventions, which is ineffective. Malpass observes that the real GDP has been falling, the unemployment level is still high, US credit rating is falling and national debt to GDP is escalating, therefore recession is imminent.

The US economy is facing bleak times despite Dow Jones Industrial Average and S&P 500 robust performance, other economic indicators point to a looming recession. However, the government continues to dispute these observations arguing that the slow growth witnessed post recession is because the recession was very deep. It is alarming to observe that even post recession economic growth is sluggish, growing slightly over 2%, the unemployment rate is above 8%, increased taxes and mandated government spending and the resumption of foreclosure, an indication that the economy is still out of the doldrums.

Conclusion

Although the S&P 500 and Dow Jones Industrial Average have hit highs previously witnessed pre-recession, the US economy is still struggling and the growth seems unstable, a recipe for a looming economic recession. For instance, economic growth is stunted, the unemployment rate is above 8% and the national debt is expanding, indications that the economy is on shaky grounds.

References

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