DOWNLOAD PDF WHAT SHOULD THE FEDERAL GOVERNMENT DO TO AVOID A RECESSION?

Chapter 1 : Do interest rates increase during a recession? | Investopedia

what should the federal government do to avoid a recession? wednesday, january 16, congress of the united states, joint economic committee, washington, dc.

Is it a single cause or a chain of issues? There are lot of guesses and views spreading around about how long the recession will last and how deep the recession is! If you look at the list of recessions in the United States from , the minimum length of a recession has been one year the last one in and the maximum 23 years though it may not be that extreme this time due to a long list of underlying differences between then and now! Hence instead of further digging the dirt to find the roots, causes and blaming targets of recession, if we act upon measures to cease recession, it would be the need of the situation because as long as recession prolongs, unemployment rate goes up. As unemployment rate goes up, crime rate goes up; hence life becomes a hell on earth. Hence it is the need of the hour to put a brake to recession! Now how to contain recession or how to get out of recession of a country? How to exit recession of a corporation or an individual? Steps Needed to be Taken by Governments to Stop Recession Government of a country is the key player to stop recession and to divert the economy to the path of growth. The prime actions of a government on fighting against recession should be focused on increasing money circulation, containing inflation, boosting per capita disposable income, reducing per capita debt level, balancing interest rates, ensuring an atmosphere conducive to business activities and any other supporting measures for these causes. Contain Inflation We are on earth with the strong invisible gravitational pull keeping us stuck on the surface of earth balancing everything. Hence everything that goes up has to come down, even the spiraling prices. In the mean time on the earth when the prices go high, it causes its own mess eroding the purchasing powers of every individual leading to recession. The more the time the prices stay above the purchasing power of an average citizen, the more the damage. Hence take any measure deemed necessary to bring the inflation rates down as inflation erodes away the value of money, year on year, of any economy. Encourage Imports of High-Priced Commodities To contain the prices of the articles that are sky high, encourage imports so that let the deregulated market determine the price of a commodity. If steel and cement is ruling high in your country, discourage exports and encourage imports of these goods by imposing and repealing taxes respectively. This should bring the price to a stable level, so is the case with every other commodity. Discourage Borrowings if Inflation is Ruling High If easy access has been given to credit at the times of high inflation, it will further add fuel to flame elevating the inflation numbers as people tend to borrow and spend on least important needs than priority needs since they have easy access to funds. Hence tighten credit as one of the measures to contain inflation. Encourage Savings Any family without savings is a roofless home; it is not insulated and can be subjected to rain or shine any time. Hence starting from microeconomics, encourage savings from individual level or family level. Give tax sops for savings. Give tax sops on the savings of your citizens abroad, who are bringing back money to homeland to invest it here. Economies with their population having considerable amount of per capita savings and per capita disposable income are very much better insulated in recession times than their counterparts with population of more debt levels. Cut Taxes Give tax sops to encourage people with good amount of savings to loose their purse strings to go for a shopping spree on real estate assets or to invest in stocks, bonds or to even start new businesses so that new job opportunities are made and the money lying idle in savings instruments is routed to a healthy cause. Reduce Government Expenditure and Focus on Infrastructure Development The people at top government level should be the role models in cutting down unnecessary expenditure by switching to simple lifestyles and shelving down not-so-important projects. Reduce subsidies and less priority expenditures of the government. An ideal government should be a facilitator of business providing infrastructure to a community than a conductor of business, itself owning and conducting businesses. Hence route government funds so saved to infrastructure development and activities that will generate employment than investing in businesses. Encourage Exports No country can be self sufficient. At the minimum any country will need to trade in for food or energy. Encouraging exports should turn your country from a consumer state to a producer state. Reduce Interest Rates Access to credit should not be a barrier for any deserving enthusiastic entrepreneur to start a business and this can only be achieved by reducing the interest rates. But it is a double edged sword, hence the administrators should always have their hand on the steering of this aspect balancing the interest rates and inflation, whenever the inflation rate goes up, the interest rate has also to go up to discourage borrowing for not so important purposes. Encourage Foreign Direct Investments If your country does not have rich people with enough resources to start new businesses let some foreigners do it to flourish the economy, may be you can keep the controlling stake with your citizens itself by regulating the ownership ratio of Conduct international trade fairs to attract investors. Ensure Peaceful Atmosphere Conducive to Businesses Businesses flourish under peaceful atmosphere and favorable government policies. Who will need to invest in a country torn apart by terrorists or with a fear of terrorist attack every other day or is a nurturing ground for terrorist activities? Hence be hard on terrorists and separatists, no compromise on this aspect by the countries who want their economy to flourish. Ensure a peaceful atmosphere conducive to business activities. Else, it is obvious that businessmen pull their investments to migrate to a country where they could make profits and see their capital investment grow. A government cannot spoon-feed each and every commercial organization that is falling down. Only a few thousand employees of that company might be saved making them further lazy. These car majors have world wide operations and had they operated profitable at least sparing US, they would not have requested a single cent as bailout from the government. Note that in its year history of business, only now Toyota is forecasting its first ever operating loss! So, if Korean, Japanese or German car maker giants can withstand and survive the recession without any government aid from their respective governments, why not the Americans? Pity the American tax payers. As I said earlier in recession proofing your current stint at job , this is the time to build your brand. Keep innovating your products. If your company and business ideas are still running successful in this recession and if you are sitting on huge cash reserves, recession times are the best times for bargain hunting, buyouts, mergers, consolidations and starting new ventures. Cut down all non-essential expenditures. Until you operate on wafer-thin margins, offer attractive selling incentives for your folks and buying incentives for the prospective buyers. Food grain production and supply have not gone down. Japanese should be our idols, they bounced back from the damn after effects of Hiroshima and Nagasaki just with their hard work. Hard work has never killed anybody and the fruits of hard work are so sweet. Hence extend your working hours from 40 hours a week to 48 hours a week. It is rather advisable that any faithful citizen of a country read that. Pay Your Debts First Before getting into action of paying off debts, examine your portfolio of debts for good debt versus bad debt. Paying off a debt that charges you high interest or a bad debt should be given first priority on your agenda. Eliminate your debt faster with aggressive debt reduction to reduce the heavy interest burden at times of low income. If you have a mortgage loan, vehicle loan, personal loan or any other sorts pay them off to the extent you can, so that you could plug the interest drain from your personal finance. Though late, Americans have only now finally??!! Stick to the 50 tips for frugal living. Postpone your Caribbean and Mediterranean luxurious cruise vacations to next year. Share resources to stretch the maximum possible extent. May be you can share your car with your sweetheart to the office. A bicycle ride to the grocery store can be friendly on your gas bill and friendly on your health too. Instead of two-three movies a month, cut it down to a movie a month at the theater. Instead of dining out at the weekends, make it all member prepared homemade dinner. It is better late than never. If at all you cared a damn saving a cent, start saving now, a penny saved is a penny earned. Life has to go on. Hence, instead of banking on your savings, settle down for a next level job anywhere else even if it needs relocating to some other country, that the motto should be earning money for a living than to bank upon what you have. Focus on creating multiple income streams to your kitty by working part-time after the main job, making online sales etc. Pay Taxes Promptly Any government runs on the taxes that their dutiful citizens have taken pain to pay. Hence you as a dutiful, sincere citizen to stop recession of your country, pay your direct taxes promptly. Buy Assets If you were wise enough, you would have sold your stocks when bourses showed weakness. If you have paid out your debts and have a notable amount of savings, recession times are ideal for buying assets. Go for any immovable asset bargain hunting. However, what we do is that we buy at the climax of bull runs due to enthusiasm and sell at the fag end of bear markets due to fear, the commonest mistake or psychology of any individual!

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The chairman's essential policy approach follows the basic premise of Keynesian economics: in times of deep recession or depression, only the federal government has the ability to reverse things.

Ready to fight back? Sign up for Take Action Now and get three actions in your inbox every week. You can read our Privacy Policy here. Thank you for signing up. For more from The Nation, check out our latest issue. Support Progressive Journalism The Nation is reader supported: Travel With The Nation Be the first to hear about Nation Travels destinations, and explore the world with kindred spirits. Sign up for our Wine Club today. Did you know you can support The Nation by drinking wine? That is, a renewed global recession will compound the losses and can swiftly morph into the big D, for depression. Ad Policy At least nine of the economies in Western Europe are already contracting. Their euro debt crisis threatens to pull down others. The anemic American recovery remains stalled by its blocked housing sectorâ€”there are still too many homeowners drowning in mortgage debt to trigger normal home sales and construction. Private investment is sagging, corporate profits softening too. Federal Reserve chair Ben Bernanke, almost alone among influential officials, has been sounding the alarm in his understated, scholarly manner. The former Princeton economics professor is an authority on the Great Depression, and especially on the danger of cutting back government stimulus prematurely before a vigorous recovery is established. Bernanke has vowed that he will not repeat the big mistake the New Dealers made in the s. The Fed has already created trillions of dollars and pumped that new money into the financial system, hoping that lowering interest rates to near zero would stimulate spending and production. Bernanke said he would keep trying until the Fed gets it right. The scheme will also penalize banks if they fail to meet those goals. This approach crosses the line into territory that central bankers normally want to avoid: But if the legendary Bank of England can do this, maybe that will give political cover for Bernanke to try something similar. His actions are derided as dangerous meddling that threatens to spark inflation though it currently remains near zero. The central bank, as I will explain, has abundant precedent from its own history for taking more direct actions to aid the economy. And it has ample legal authority to lend to all kinds of businesses that are not banks. Together, they have cornered the chairman. Discussion of monetary policy is always limited to a rather small circle of influential policy experts and financial interests. Most citizens are clueless and easily ignored by unaccountable decision-makers; so are most elected politicians. If Bernanke proposes controversial measures, he might be standing nearly alone. In effect, they could put an arm around Bernanke and encourage him to try more aggressive measures. The progressive side has been absolutely silent, and yet the conservatives have been jumping up and down. I hope it nudges the left to get up to speed on monetary policy and take an aggressive position instead of forfeiting the field to the right-wingers. I want progressive activists to intrude on the privileged circle that talks to the august Federal Reserve and help citizens join the conversation. So long as the insulated central bank maintains its privileged structureâ€”unaccountable to voters but intimately connected to the bankers it regulatesâ€”the people are bound to be left out in the cold. Mitt Romney and the Republican Party, on the other hand, have reverted to the stiff-necked Calvinist doctrine that conservatives espoused after The New Deal blew away the smugness of the monied interests seventy-five years ago. Now they are back, peddling the same bromides. Democrats, with few exceptions, seem to have lost their appetite for provocative ideas, while Republicans are zestfully pushing their crackpot nostrums. But what else can the Fed chair do? Actually, quite a lot. Instead of pumping more money into the banking system, where much of it feeds speculation, the chairman should figure out how to get it to the sectors of commerce or industry that really need it. The Fed, for instance, could use its regulatory muscle to unfreeze the risk-averse bankers who are still unwilling to lendâ€”the same bankers whose reckless risk-taking nearly brought down the entire system four years ago. The Fed could create special facilities for directed lending just as it did for the imperiled banking system that gets the banks to relax lending terms for credit-starved sectors like small business. If bankers refuse to play, it could offer the same deal to financial institutions that are not banks. The Fed could help restart the enfeebled housing sector by collaborating on debt reduction for the millions of underwater home mortgages. It could help organize and finance major infrastructure projects, like modernizing the national electrical grid, building high-speed rail systems and cleaning up after Hurricane Sandyâ€”public works that create jobs the old-fashioned way. These are plausible examples of what the central bank might do if it truly tries to fulfill its dual mandate. Orthodox monetary economists will be horrified by such talk: A few of the suggestions would probably require clarifying legislation and congressional cooperation. But the Fed can carry out direct interventions to help the economy recover, because it has done them before. This remains the law today. The central bank can lend to industrial corporations and small businesses, including partnerships, individuals, and other entities that are not commercial banks or even financial firms. The Fed made thousands of direct loans to private businesses during the New Deal, and the practice continued for twenty years. Only in more recent times has the reigning conservative doctrine insisted that this cannot be done. The original authorizing legislation for such lending was enacted in as Section In practice, it meant whatever the Board of Governors decided it meant. Fed governors must now get approval from the treasury secretary, but they do not have to ask Congress for permission. It was invoked repeatedly at the height of the recent crisis, when the Bernanke Fed intervened massively to rescue the financial system, directing aid to corporations, individual investors and other nonbank businesses. AIG is not a bank but a giant insurance company, and it was obviously insolvent. Normally, a failed corporation would proceed to bankruptcy court, where its creditors would fight over what was left. The Fed used its Section Whether or not these interventions were justified, the point here is that the central bank was willing to save certain corporate enterprises when it believed the consequences of their failure would threaten the largest banking institutions. Yet the Fed declined to do something similar for the overall economy and help millions of indebted homeowners and unemployed workers. The Federal Reserve had no such inhibitions during the Depression. It became an active lender to nonbank businesses, even to very small mom-and-pop enterprises. The administration and the central bank worried that the collapse of this industrial corporation would spark a financial crisis. So the Fed assured bankers it would back them up. Of course, our current troubles are not nearly as bad as the horrendous unwinding that occurred from to But this crisis is not over, as Bernanke knows. He is anxious to avoid a bloody repeat of the full catastrophe. But the central bank has a blind spot. It knows a lot about macroeconomics and the daunting complexities of finance, but not so much about the everyday business savvy needed to succeed in the real economy. If that power is abused, it can destabilize society. In an economic crisis, however, the money-creation power can be harnessed to public purposes and used to restore order and justice. The fact that the strategy did not entirely succeed suggests that maybe this power should be applied in a different direction. Fed expenditures do not show up in the federal budget, nor do they add anything to the national debt. In a sense, this freshly created money belongs to the peopleâ€”all of usâ€—and can be used in unusual ways to advance the shared public interest. A plan proposed by Oregon Senator Jeff Merkley, they explained, could boost disposable income for some 20 million families with underwater mortgages, including those not backed by the government-sponsored housing enterprises Fannie Mae and Freddie Mac. Several federal agencies could handle this, but Zandi told me that using the Federal Reserve would be the most efficient way. They manage the flow by raising their eligibility standards. Finance and a leading reform advocate, insists that the central bank has numerous levers to drive reluctant bankers to support a vigorous recovery with more plentiful lending. The Fed could alter reserve requirements to punish bankers or reward them. The Fed can steer banks to neglected categories of lendingâ€—small businesses, for instanceâ€—by lowering the reserve requirement on those loans. However, the community bank is an engine of growth, and here is a way to help them. Community banks are naturally skittish. This could also involve them in infrastructure projects initiated by state and local governments. It is a way of backstopping the little community bank and the medium-sized bank. The Fed could help organize them. Stephen Sleigh, a labor economist and director of the national pension fund for the International Association of Machinists and Aerospace Workers union, has similar ideas about how the Fed can persuade private capital investment to finance major infrastructure projects. I would love to see the Fed start talking about infrastructure. The Fed needs to be working on new tools and find ways to get the conservative money off the sidelines and start rebuilding the American economy. As Bernanke surely understands, the economic crisis is not over. We are still at risk of things turning worse. If that occurs, these and other proposals for action will become highly relevant. If the economy subsequently spins out of control, he will be the scapegoat. Something similar occurred between and , when the Federal Reserve suffered a historic disgrace. After the market crash, some Fed governors saw the peril and pushed for stronger action. But conservative bankers prevailed. They let nature take its course.

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Chapter 3 : Can the government help in a recession?

Namely, as long as government is responsible for a sufficiently large proportion of national spending, a government can step in and spend to offset the fall in demand caused by a global recession. Whether it can afford to do this, has any right to do this and will not simply promote more cyclical fluctuations is another matter.

What should Nigeria do to avoid sliding back into recession? Recession is a state of weak aggregate demand. This in turn will stimulate production. We should also encourage spending on domestically produced goods and services for the impact of such spending to be felt on the local economy. When this happens, it will mitigate the effect of recession. We can, in fact, delay recession, we cannot eliminate it; it is part of the economic cycle. Unfortunately, we have accepted the neo-economic philosophy that lays much emphasis on the market. I think reliance on market economy will not get the country out of recession. Government has to step in and create conditions for the market itself to function. For now, the market as it stands cannot deliver us. We have been through this road before. A few months ago, precisely soon after the recession by mid , the economy appeared set to embark on a journey of sustained positive economic growth â€" especially on the heels of oil price recovery. Gross Domestic Product growth rate headed north, external reserves grew and the exchange rate stabilised. Inflation rate maintained a downward trend amidst a bullish stock market. As a matter of fact, the Nigerian stock market was rated among the top three in Today, the table is turning for the worse; GDP growth plunged from 2. Worse still, the agricultural sector which recorded relatively high growth rates in previous years, including the period of recession, was only able to grow by 1. Headline inflation is now witnessing a spike after several months of disinflation with the food index accounting for much of the increase. This development threatens exchange rate stability. The stock market has been in the bearish territory for most part of the year. A lot of foreign investors have fled the country partly on account of the political tension and economic uncertainty fuelled by the non -implementation of the capital component of the budget. There are concerns that government borrowing is becoming unsustainable. Although debt to GDP ratio is still well below the international threshold of 56 per cent, the high debt service to revenue ratio, a superior debt burden indicator, at over 60 per cent, is choking out government expenditure on critical infrastructure. Against this backdrop, the government is advised to give heed to the alarm being raised by the CBN. There is the need to prioritise the economy over politics at this time by paying closer attention to the Economic Recovery and Growth Plan, including through the vigorous implementation of the capital components of the budget. Furthermore, the government should take advantage of the rising oil price to build fiscal buffers. More effort should be put in place to ramp up oil production, including sustained engagements with stakeholders in the Niger Delta region. Uche Uwaleke Head, Department of Finance, Nasarawa State University, Keffi The issue of sliding back into recession has been on the cards for some time and this is because the economy has not grown as fast as expected. Decrease in the reserve or building it depends on the price of oil which is unpredictable, though currently rising. One other major problem is the delay in budget approval by the legislature, which affects budget implementation. Nigeria is still a public-sector driven economy such that when government is not spending, private sector activities slow down. This slows down production, output falls and unemployment increases. All these are elements of recession and are very visible now. Therefore, budget implementation must start in earnest to grow the economy. The Central Bank of Nigeria must maintain money supply restriction policy but continue to pursue credit availability at low interest rates through another window, while big businesses should patronise the capital market for funding. One can foresee inflation affecting the cost of food because of flooding and the destruction of farmlands through the activities of herdsmen and their cows. The government must quickly find solutions to this problem to avoid fast tracking the recession. Agriculture is not about rice alone; the government must put policy in place to promote domestic production of all agricultural outputs, including fisheries and animal husbandry. Going by the increasing earnings in the oil revenue, we must not make the mistakes of the past by wasting our revenue on moribund projects and things that will not impact the lives of the people. The other significant way to avoid going back into recession is for the government to develop a saving culture. We have to save for the rainy day and we have to ensure that our foreign reserves increase rapidly from this growing oil revenue. It is what we have in our savings as a country that will sustain us in the years to come. On the accumulation of foreign debts, the government has to be circumspect and ensure that the money it borrowed goes into the right purposes. I believe that even the most advanced countries of the world have foreign debts on their necks but they use them to provide social amenities such that people see value for the debts. So, while the Federal Government may not be totally able to avoid foreign loans, we have to ensure that the loans are properly utilised. Otherwise, with the foreign loans, we will still slide back into recession if there is no adequate management of our resources. So, it is encouraging that Nigeria is coming out of recession and the government needs to sustain this momentum by putting together policies that will encourage a wise use of our growing oil and other revenues. Inflation rate has been going up and down, but not as it used to be. There should be more emphasis on agriculture and solid minerals too. In the long run, infrastructure. Power is another important infrastructure. Roads too are very important. By the time we put all these things in place, we may find ourselves not sliding into recession. This brings us to the issue of corruption because we need political will to fight corruption. The executive cannot do it alone; the legislature and the judiciary have roles to play. There are anti-corruption bills lying in the National Assembly which require urgent attention. The judiciary too should be up and doing. Cases of corruption should be treated with dispatch. The oil which we depend on is sold outside the shores of the country. When the oil price goes down, it will affect our revenue and it has its consequences. When Nigeria does not have enough money to develop and drive the economy, it will be difficult. We just pray that the crises in the Middle East and some parts of Europe do not adversely affect us. Like the US sanctions on Iran, when you have such a crisis, the tendency for oil price to go high at the international market will be there. Internally, there are many things that we are contending with. Recently, there was the flood which negatively impacted the Nigerian economy. Most farmlands have been affected and definitely next year, the tendency for the level of food production to drop will be there. Unless we surmount our infrastructural and security challenges, there is the likelihood of us going back to recession.

Chapter 4 : How to avoid a recession | Economics Help

Especially in finance-led recessions, though, there's also a call for the Federal Reserve to reduce interest rates as a way to head off a finance-led recession.

A minor downturn in one business spreads to its suppliers and then to their suppliers. Workers are laid off or simply fear that they will be and buy less, spreading the downturn to other sectors of the economy. Since the s, governments have tried to act to limit the damage caused by recessions, but not everyone agrees that government action can help. Economists classify recessions depending on how they start. Consumer-led recessions Sometimes consumers just start to buy less. That can happen either because their budgets are squeezed such as by rising oil prices or because their confidence is shaken such as by rumors of war or both such as by falling home prices. That would tend to put a floor under possible declines in economic activity. Business- or finance- led recessions Sometimes businesses or their banks cut back even before consumer activity shows a downturn. And, since nowadays finance-led recessions are almost always started by the Fed having raised interest rates, this makes a certain kind of sense. In other countries, replace "Federal Reserve" with the name of your central bank. The contrary view Not everyone agrees that government action is appropriate when a recession threatens. There are two threads to the contrary view. Ordinary policy actions have some effect on the economy--and actions taken to "fine-tune" the economy especially so. Tax increases, budget cuts, and regulatory actions tend to suppress business activity. Of course, the main way the government causes recessions is by raising interest rates. The central bank does this to head off inflation caused by the central bank actions that lowered interest rates earlier. This cycle is often compared to driving a car by alternately stomping on the accelerator and then the brake. While everybody agrees that policy actions have effects on the economy, the mainstream view is that this means we should carefully consider policy actions and try to balance the effects in ways that minimize the harm--and if actual results in the economy show that things have gone awry, the government should take further action to try to "fix" the problem. People like to compare it to having a drink to treat a hangover. The policy recommendations that come from this perspective tend to support low taxes, low spending, less regulation--basically, less government altogether. Malinvestment The other thread is a bit more technical. The theory is that in any business expansion, there will be people who make unwise investments. The swimming-pool installer who bought a new backhoe, figuring that global warming would mean that his business could only go up, may find that the housing downturn has made it tough for many of his customers to get the home equity loan they need to pay for a new pool. If nothing else goes wrong, he can probably work his way out of the problem--lower profits while he pays off the under-used backhoe, but not a business failure. Inflation always causes malinvestment, because inflation fools people into thinking that things are going especially well. Businesses see a surge in businesses, which prompts them to expand. Government spending produces malinvestment a well, as businesses gear up to produce whatever the government is buying today. The key here, though, is that an investment is only malinvestment if the price is too high. So, the thrust of this thread is that recessions are how malinvestment gets worked out of the economy. Some business go under, others sell off underperforming pieces. The result is an economy where productive assets are reallocated to where they can be used profitably--at which point the stage is set for a sound recovery. Can the government help? People on both sides of the issue see that government action leads generally to malinvestment. As to whether governments can help in a recession, the answer clearly depends on where you stand. Cutting interest rates is great for people who have variable-rate debt or would like to , but it sucks for people who have cash. In the end, the people who are helped are very specific and very aware of the help, while others are either not harmed, or are harmed only in a diffuse, general way along with everyone else. The result is that the political pressure always tends to be on the side of more help.

Chapter 5 : What Happens to the Interest Rate During a Recession? | blog.quintoapp.com

3 Reasons the Federal Reserve Can't Prevent a Recession Fiscal policy refers to the federal government's use of tax policy and spending to influence the economy. Now, don't get me wrong.

Although many people suffer pain in the process, the net result is overwhelmingly beneficial. It is a natural cycle, like the need to sleepâ€”all attempts to stave it off will be detrimental. The benefits of recessions include: Fictitious capital is revealed for what it is; Loss-making companies are liquidated and further waste is terminated; Unwanted houses stop being built; The price of housing becomes static as a multiple of average incomes and even goes down; The proliferation of brokers, scheme promoters, and financial charlatans of every type is collapsed and instead they have to find productive and honest work;6. There is no such thing as a natural depression. The nature of individuals, of which economies are comprised, is that they will energetically and continuously seek to improve their position under any circumstances. Even in the Warsaw ghetto during World War II, there was a thriving black market and smuggling operation that kept people from starving. People simply refuse to roll over and die. They fight, they work and scheme, they endeavor, they evade, they do anything they can to improve their situation. The harder and more difficult the circumstances, the more they discover what they are capable of. This nature, when combined with the market system, will always lead to humming economic activity even under the most trying of circumstances. The only thing that can stop flourishing commerce and full employment is lawlessness whereby property is unsafe , government debauchery of the currency, market intervention and socialism. When this happens, extra effort and ingenuity is rendered futile. It is true that the force-fed credit inflation of the s drastically distorted the structure of the United States economy. However, that does not explain why it took so long to recover. We know from the experience of West Germany after World War II that no matter how low a country sinks, there is nothing to stop it immediately afterwards building a thriving economy and full employment for all the survivors. By Germany had lost more than 10 percent of its pre-war population through violent deaths on the battlefield or in bombing raids. Many more were horribly crippled and needed to be constantly cared for. Its entire stock of intellectual property had been confiscated. Millions of its men were captives in Britain, France, and the Soviet Union providing forced labor by way of reparations. The West German coal and steel industry had been dismantled by the occupation forces, and all industrial activity had been banned. All its major cities and vast acres of suburbs had been razed to the ground, and its factories and railway lines had been bombed into ruins. Millions were homeless, and the roads were blocked with rubble. Adult mortality was four times higher than before the war, and child mortality ten times higher. By the average calorie intake was lower than during the war. It would therefore be wrong to say the Germans were, in , in a better position than the Americans found themselves at the beginning of the Great Depression. Adenauer, Erhard, Reuter, and other leaders understood the practical importance of libertyâ€"that just as truth can flourish only when the journalist is given freedom of speech, so prosperity can come about only when the farmer and businessman enjoy economic freedom. When Ludwig Erhard in introduced sound money and abolished both price-fixing and production controls, the so-called German economic miracle took off. Yet there was nothing miraculous about it. It is human nature, when unfettered by socialism, to work hard. Hard work, when guided by market forces, always creates prosperity. As Margaret Thatcher observed: Those who were utterly defeated can hardly have been less exhausted. Yet they have done infinitely better in peace. Henny Penny The collapse of a force-fed credit bubble is not a catastrophe. It is simply the lifting of an illusion. Even the total collapse of the financial system and liquidation of every bank on the planet would not be a catastrophe. World War I and World War II were catastrophes; the enslavement of Russia, Eastern Europe, North Korea and China for multiple generations were catastrophes; a nuclear exchange or worse, a nuclear holocaust, would be a catastrophe. It is important that politicians, central banks, and electorates understand this. Otherwise something as trifling as financial disillusionment will lead to a real catastrophe which is what happened in the s through the adoption of wrongheaded measures. To avoid wrongheaded measures and therefore real catastrophes government should apply the same rules to the nation as sensible individuals apply to their private finances during a financial crisis. The television news often shows interviews with a married couple the day after their home is destroyed by a wildfire. At least no one was hurt or killed. It cannot be solved by deceitful means, nor can socialist measures, which provide perverse incentives for idleness, assist in any way. Should the government encourage the people to consume? Consumption is a by-product, not the cause, of a healthy economy. Profligate consumption is a symptom of force-fed credit inflation. Yearning to return to the days of profligate consumption is like a drug addict yearning to be high again. Consumption is not what makes an economy grow; what makes an economy grow is investment. The imbecilic desire of politicians to stimulate consumption comes from their child-like view that lowered consumption, a symptom of a credit contraction, is the cause of a credit contraction. They see the economy as a game of pass-the-parcel, with the only problem being that the music has stopped. They are oblivious to the fact that the real cause of the problem is the structural derangement of the economy over a long period of time by force-fed credit. Should the government hand out money? The worst thing a government can do is hand out money. If the money comes from taxation, it will cause unemployment as businesses are obliged to cut wages and payrolls in order to make the sums add up; If the money comes from the printing press, it will cause monetary inflation, which causes unemployment; If the money comes from central bank debt instruments, it will prevent the credit market from recovering, stifling investment and trade and so causing unemployment; If the money comes from government borrowing, it will divert available capital from the private sector and increase the burden of taxes to service the debt. Should the government invest in infrastructure? When the government undertakes vast infrastructure projects in order to stimulate the economy, it creates only temporary work. None of the business structures or employment created to service these government orders will be permanent. In the meantime, human and capital resources are denied to the private sector, upon which everything depends. A nation should invest in infrastructure during fat years, not lean years. Just as an individual does not put an extension on his house, nor a private company lay out a new production line during a recession, neither should the government invest in infrastructure when the country can ill afford it. Such expenditure can only be financed through higher taxes, monetary inflation, or borrowing, all of which cripple economic recovery. Should the government nationalize banks? In in Chile, banks that held half of the deposits were suffering severe liquidity crises. The government took control of these banks. Within three years, the Chilean government had liquidated the insolvent banks and reprivatized the solvent banks. The government set up a new regulatory scheme to avoid mismanagement. These new regulations allowed the market to determine interest rates and the allocation of credit to firms. The short-term costs of the crisis and the reform in Chile were severe, and real GDP fell sharply in and By , however, the Chilean economy started to grow, and Chile has been the fastest-growing country in Latin America since then. In in Mexico, the government nationalized the entire banking system, and banks were only reprivatized in the early s. Throughout the s, in an effort to maintain employment and investment, the government-controlled banks provided credit at below-market interest rates to some large firms and no credit to others. Even the privatization of banks in the early s and the reforms following the crisis have not been effective in producing a banking system that provides substantial credit at market interest rates to firms in Mexico. The result has been an economic disaster for Mexico: Between and , Mexico experienced no economic growth and has grown only modestly since then. Kehoe and Gonzalo F. The government should not take over the banks except for the purpose of liquidating them as Chile did. Banks that are teetering on the edge should be pushed over rather than assisted. This will ensure that only the strong survive, and the banking sector will thereafter be run prudently, to the general benefit of all. The opposite course rewards incompetence and causes economic malaise. What should the government do? Instead of allowing vagrancy and tent cities to spring up, the government should operate camps for the destitute. Democracy within the camps should be encouraged, but inspectors should ensure that high standards of morality, cleanliness and order are maintained. Legislation governing the running of these camps should be puritan. Conviction for infringement of the rules should result in a transfer to a regular poor house or prison. This regime may sound harsh, but the alternative is the squalid filth and crime of Hooverville tent cities. People will only despair if inflation, high taxes, and socialism prevent them from working their way out of a hole. Good, honest people only resort to crime if they or their loved ones are starving and unable to find shelter from the elements. Likewise, good, honest nations only resort to appointing dictators when they have been starved and sorely abused over a long period of time by monetary chaos, high taxation, and a breakdown in the rule of law. Conclusion When confronted by a depression, the government must neither lend, nor borrow, nor print money, nor tax and spend to stimulate, but instead should devote its meager resources as tax revenues will be down to: Maintaining the legal framework law courts and police ; Deregulation and reducing the size of government; Ensuring people are not forced to resort to crime camps for the destitute ; Ensuring the military is sufficiently resourced to deter external aggression; Reducing taxes. If these steps are taken, very quickly real growth, not fictitious capital, will provide employment to every person who wants a job. There will then follow a long period of high growth in living standards. The proof of this lies in the German post-war experience.

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Chapter 6 : How The Federal Reserve Fights Recession

What should the federal government do to avoid a recession?: hearing before the Joint Economic Committee, Congress of the United States, One Hundred Tenth Congress, second session, January 16,

The Federal Reserve must lower interest rates now to avoid a recession, rising unemployment by Robert E. Scott and Christian Weller Despite its half-percentage-point interest rate cut on January 3, , the Federal Reserve must quickly make even deeper cuts to lessen the damage it has done to the economy. In each of the past two recessions, the Fed cut real interest rates by five to six percentage points before unemployment began to decline. Given this history with past recessions, the Federal Reserve should reduce interest rates by at least two to three percentage points within the next year. Without swift action by the Fed, unemployment is likely to rise by at least one to two percentage points, if the economy follows the pattern of previous recessions. Rising energy prices, stock market instability, and several other important factors suggest that the risk of a U. Since there are no signs of a significant, economy-wide increase in inflation, prices and wages are unlikely to surge if the Fed cuts interest rates this year. Even if the U. Sharply rising interest rates usually cause recessions Although each recession is unique, they seem to share some patterns. These patterns are apparent in both of the recessions that took place between and The relationship between interest rates and output gross domestic product during the last two recessions is illustrated in Figure 1. First, interest rates and real GDP growth were both extremely volatile in this period. Real interest rates ranged from 0. But since unemployment rose steadily throughout, this entire period can be viewed as one continuous recession. Real interest rates rose by more than two percentage points in the fourth quarter of GDP fell for the first three quarters of , representing a delayed response, or lag, of about one quarter. The lag between the first interest rate spike and the first of the two dips in the recession is highlighted with a shaded bar in Figure 1 also see Table 1 and below for further discussion of GDP and unemployment lags. Real interest rates spiked three more consecutive quarters beginning in GDP subsequently declined for four consecutive quarters, from Lags between interest rate hikes and output declines are hard to measure in this period due to their volatility, but appear to lie somewhere between the first and second quarters. This recession followed a two percentage-point increase in real interest rates that began in GDP fell for three quarters, starting in This pattern indicates that the lag between higher interest rates and falling output grew from one recession to the next. More recently, between Past trends would indicate that there is a significant risk of a recession in Falling growth rates eventually lead to rising unemployment The recession: Unemployment tends to lag behind rising interest rates and declining GDP growth, peaking one to two years after GDP has bottomed out Figure 2. In the case of the recession, GDP growth began an erratic decline in Although unemployment declined slightly in that same quarter, it began to rise the next quarter In fact, the unemployment rate increased in every quarter between Unemployment did not recover to pre-recession levels until late , nearly five years after GDP reached its lowest point. The peak level of unemployment in Unemployment lags behind changes in GDP growth for a variety of reasons, including the tendency of many firms to resist firing workers because of the potential loss of key, employee-specific skills. The recession of was much deeper and longer than expected, and it took much longer to develop than the recession of GDP growth began to decline rapidly in Unemployment remained stable for some time, and then began to rise in GDP growth reached a low point in Unemployment rose steadily and peaked in This pattern demonstrates that peak unemployment lagged by 18 to 21 months behind the trough of output in this cycle. The next recession Real GDP growth declined sharply from 5. For example, housing fell As for the immediate future, the U. First, the doubling and quadrupling of some energy prices especially for petroleum products and natural gas is a supply shock that will further depress output. Second, corporate earnings are likely to decline with output, thereby depressing stock prices. Rising loan defaults could make lenders wary enough that a slowdown in credit expansion could hamper a recovery, even if interest rates are lowered. Another threat comes in the form of the rapid and continuous growth of the U. The resulting surge in net foreign debt increases the financial fragility of the U. As more overseas capital is needed to finance future trade deficits, an economic slowdown may make it increasingly difficult to attract foreign capital or to avoid the outflow of capital to other financial areas, particularly the 11 member countries of the European Union. GDP, any disruption to the California economy will have ripple effects throughout the country. If the economy does enter a recession, output could decline until at least early if the recession follows the patterns established between and The downturn could last much longer in a worst-case scenario, which could involve a stock market collapse, international trade and financial crisis, or both. In the stubborn recession of , the Fed was forced to cut real interest rates by more than five percentage points between If the last recession is any indication, the Fed must soon cut interest rates by at least 1. In particular, a rate cut by at least 0. Short of that, the Fed will signal to workers and markets that it is willing to tolerate a recession and growing unemployment. In addition to these steps, a fiscal policy response is probably required as well to help those who would be most vulnerable in a downturn and to stimulate the economy. The most important steps would include: Rising energy prices, stock market instability, and several other important factors suggest that the U. With no signs of a significant, economy-wide increase in inflation, prices and wages are unlikely to surge if the Fed cuts interest rates this year. And even if the U. All short-term loans, as well as longer-term loans to a lesser degree, are influenced by the FFR. In the U. The impact of monetary policy was greatly increased and that of fiscal policy taxes and government spending was reduced. Thus, we analyze only the recessions following Although the NBER considers two recessions to have occurred in this period, this paper sees it as one, based on the continual rise in unemployment. Figures 1 and 2 include information through Actual quarterly data are not averaged. All data reported at seasonally adjusted annual rates. References Bureau of Economic Analysis. Business Cycle Expansions and Contractions. See more work by Robert E.

Chapter 7 : Can the Federal Reserve Help Prevent a Second Recession? | The Nation

The other significant way to avoid going back into recession is for the government to develop a saving culture. We have to save for the rainy day and we have to ensure that our foreign reserves.

Should the government intervene in the economy? Tejvan Pettinger economics One of the main issues in economics is the extent to which the government should intervene in the economy. Free market economists argue that government intervention should be strictly limited as government intervention tends to cause an inefficient allocation of resources. However, others argue there is a strong case for government intervention in different fields. Hoover Dam built in the s with government funds This is a summary of whether should the government intervene in the economy. Arguments for government intervention Greater equality â€" redistribute income and wealth to improve equality of opportunity and equality of outcome. For example, governments can subsidise or provide goods with positive externalities. Arguments against government intervention Governments liable to make the wrong decisions â€" influenced by political pressure groups, they spend on inefficient projects which lead to an inefficient outcome. Government intervention is taking away individuals decision on how to spend and act. Economic intervention takes some personal freedom away. The market is best at deciding how and when to produce. Arguments for government intervention to improve equality In a free market, there tends to be inequality in income, wealth and opportunity. Private charity tends to be partial. Government intervention is necessary to redistribute income within society. Diminishing marginal returns to income. The law of diminishing returns states that as income increases, there is a diminishing marginal utility. For example, your third sports car gives only a small increase in total utility. Therefore, redistributing income can lead to a net welfare gain for society. Therefore income redistribution can be justified from a utilitarian perspective. In a free market, inequality can be created, not through ability and handwork, but privilege and monopoly power. Without government intervention, firms can exploit monopoly power to pay low wages to workers and charge high prices to consumers. Without government intervention, we are liable to see the growth of monopoly power. Government intervention can regulate monopolies and promote competition. Therefore government intervention can promote greater equality of income, which is perceived as fairer. Often the argument is made that people should be able to keep the rewards of their hard work. But, if wealth and income and opportunity depend on being born into the right family, is that justified? A wealth tax can reduce the wealth of the richest, and this revenue can be used to spend on education for those who are born in poor circumstances. Using this social contract, most people would not choose to be born in a free market because the rewards are concentrated in the hands of a small minority of the population. If people had no idea where they would be born, they would be more likely to choose a society with a degree of government intervention and redistribution. Government intervention to overcome market failure 1. In a free market, public goods such as law and order and national defence would not be provided because there is no fiscal incentive to provide goods with a free rider problem you can enjoy without paying them. Therefore, to provide public goods like lighthouses, police, roads, e. Goods like education and health care are not strictly public goods though they are often referred to as public goods. In a free market, provision tends to be patchy and unequal. Universal education provided by the government ensures that, in theory, everyone can gain an education, which has a strong social benefit. Government subsidy for goods with positive externalities 3. The free market does not provide the most socially efficient outcome, if there are externalities in consumption and production. For example, a profit maximising firm will ignore the external costs of pollution through burning coal. This leads to a decline in social welfare. By contrast, other forms of energy production, like solar power, are environmentally friendly and have a positive externality. By taxing production which causes pollution costs and using the subsidy to encourage other forms of energy production, there is a net gain in social welfare.

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Chapter 8 : What should Nigeria do to avoid sliding back into recession? â€“ Punch Newspapers

To avoid wrongheaded measures (and therefore real catastrophes) government should apply the same rules to the nation as sensible individuals apply to their private finances during a financial crisis. The television news often shows interviews with a married couple the day after their home is destroyed by a wildfire.

To avoid a recession, the government and monetary authorities need to try and increase aggregate demand consumer spending, investment, exports. There is no guarantee that they will work. It will depend on the policies and also the causes of the recession. The primary policies will be Loosening of monetary policy â€" cutting interest rates to reduce cost of borrowing and encourage investment Expansionary fiscal policy â€" increased government spending financed by borrowing will enable an injection of investment into circular flow Ensure financial stability â€" in a credit crunch, government intervention to guarantee bank deposits and major financial institutions can maintain credibility in the banking system. If the recession is caused by very high-interest rates, then cutting interest rates may help avoid a recession. Policies to avoid a Recession 1. Expansionary monetary policy â€" cutting interest rates. Cutting interest rates should help to boost aggregate demand. Amongst other things, lower interest rates reduce mortgage interest payments, giving consumers more disposable income. Lower interest rates also encourage firms and consumers to spend rather than save. Buying these bonds causes lower interest rates and helps to boost spending in the economy. In 09, interest rates were cut to 0. This is known as a liquidity trap 2. Quantitative easing If interest rates are already zero, then the Central Bank may have to pursue unconventional monetary policies. Quantitative easing involves the Central Bank electronically creating money and using this money to buy long-dated securities. This increases bank reserves and should help encourage bank lending. Also, it reduces interest rates on bonds which should help encourage spending and investment. Quantitative Easing Explained 3. Helicopter money is a policy to increase the money supply and give money directly to consumers. This is effective in a period of deflation â€" where consumers are reluctant to spend and banks are reluctant to lend money. This injection into the circular flow is financed by government borrowing. If the government cut income tax or VAT, it increases disposable income and therefore increases spending. If effective expansionary fiscal and monetary policy will increase AD and lead to increase in real GDP. There is no guarantee tax cuts will boost spending if confidence is very low. Some economists are concerned higher government borrowing will cause crowding out â€" where private sector lend to the government and then spend less themselves. However, Keynes argued in recession, there are surplus savings, so there will be no crowding out and fiscal policy will be effective in boost demand and preventing a recession. Can tax cuts avoid a recession? Expansionary fiscal policy is less practical for countries in the Euro, who have less flexibility over borrowing levels in the Eurozone. In the credit crunch of , there was a danger that savers would lose confidence in bank deposits. Customers were queuing up to withdraw savings. If people lose confidence in the banking system, it could cause bank closures, rapid fall in confidence and decline in money supply like the US in Home repossessions can cause bank losses and fall in consumer spending. The government may try to freeze mortgage rates to preventing house repossession or give subsidies to homeowners facing repossession. A devaluation in the exchange rate can cause a boost in aggregate demand. A fall in the value of the dollar makes exports cheaper and imports more expensive increasing domestic demand. However, in a global recession, demand for exports may be quite inelastic. Also, in a global recession, countries may begin competitive devaluation. This is when several countries try to gain a competitive advantage by devaluing currency against others, but it proves self-defeating. This is a conscious decision to target growth rather than inflation. The argument is that if the economy gets stuck in a period of low inflation, this causes lower economic growth. Targetting higher inflation rate helps to break out of a deflationary spiral. Optimal inflation target 8. A government bailout of major firms. In , the Obama administration agreed to bail out the US car industry as it was undergoing financial difficulties. The argument was that if car industry closed down, it would exacerbate the recession, cause more unemployment and a big negative multiplier effect. The bailout saved jobs and minimised the economic downturn. If the global economic climate is very dim, then monetary and fiscal policy may not be enough. Also, the policies have significant time lags. However, the right combination of fiscal and monetary policy can at least minimise the downturn and speed up the economic recovery. Depending on the economic circumstances other policies may be appropriate too, such as Devaluation.

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Chapter 9 : Should the government intervene in the economy? | Economics Help

the only policy to avoid recession, is creating jobs. The only solution to avoid recession is real work, which stimulates jobs, and stimulates the economy. The western world, revolves around consuming instead of manufacturing, and creating work.

Interest rates affect all businesses, large and small, and interest rates typically fall during a recession. There are several reasons for this. One is that the United States Federal Reserve uses its financial tools to nudge the rates down. Theoretically, the basic law of supply and demand also kicks in. Ultimately, it is the consumers and business borrowers who determine how much interest they are willing to pay to borrow money. The FFTR is the rate that financial institutions, such as banks, charge when lending to each other in the overnight market. When the committee wants to increase spending and stimulate the economy, it lowers this rate. Conversely, the Fed raises interest rates to cool down an overheated economy, says Chris Costanzo, a Houston-based chartered financial analyst. By increasing its purchases of bonds and other securities, it drives up the demand for these products and pushes up the price. Lee McPheters, a research professor and director of W. Carey School of Business at Arizona State University has said that when the price of securities increases, the fixed return as a percent will be lower. Impact on Rates Bond prices and interest rates tend to move in opposite directions because there is a fixed return on a bond. In a article in "Dollars and Sense," Alejandro Ruess describes how this works. When the Federal Reserve buys bonds it increases demand and pushes up the price. Now, the interest rate has dropped from 10 percent to less than 5 percent. McPheters adds that any new securities that are issued will have lower interest rates that are consistent with what is happening in the market at that time. The laws of supply and demand theoretically determine the interest rate. In a recession, consumers tend to save money rather than spend it. There is more of a supply of money to lend than there is a demand to borrow it. When consumers would rather save more than borrow and invest, there is less demand for credit and interest rates drop.