



Worksheet 12.1

The Big 'C' – America's Crisis of Confidence and the Great Recession

In 2009 US President Barack Obama and the US Congress passed the American Recovery and Reinvestment Act (ARRA). Over the years that followed, debate raged over the degree to which the stimulus plan was successful or not. Supporters of the program claimed that it succeeded, arguing that the economy would be in much worse shape if no stimulus had been introduced at all. Some supporters argued that the ARRA stimulus was not sufficient for a full economic recovery and that more direct government spending was necessary.

Economists on the other side argued that the stimulus package did little for the economy except to delay the inevitable, self correcting forces of the economy needed to pave the road back to recovery. Some actually claimed that the US was in a worse situation two years later due to the massive increase in government debt resulting from the stimulus.

So the question is, is the US better off as an economy because the stimulus package was introduced? With US growth still sluggish and unemployment at 9.5%, many people have begun to question the success of the ARRA. Again, some say the \$784 billion was insufficient while others say less regulation and more tax cuts should have been utilized.

In a 2010 [Washington Post article](#), Neil Irwin argued that the obstacles towards economic growth may not be solved by more stimulus, lower interest rates or tax cuts for corporations. The problem, he claims, is not a lack of funds for investment, but in the uncertainty businesses have in future conditions. Read the first four paragraphs.

With consumers choosing to save or pay off their debts now rather than spend, many businesses find it in their interest to hold off on investments into new capital until consumers begin spending again. With no planned investment and no incentive to hire workers, unemployment stays high and economic growth remains stagnant. With inflation rates low and economists predicting deflation, it makes more sense to hold onto money as it is not losing its value.

So is there a solution? In this situation, expansionary monetary policy through lower interest rates will not have the desired effect as demand for loanable funds is low. As stated in the article: on page 2 read from 'For large companies such as Illinois Tool Works...' to '...“But what am I going to do with it?”'

Other executives claim that an increase in government spending would only provide a temporary fix but have no effect on long term consumer spending. On page 3 of the article read from 'David Speer is chief executive...' to '...growth in a sustainable way, not another Band-Aid.'

Another solution would be for the government to implement supply side measures such as less market regulation and lower corporate taxes. Again, without the much needed consumer spending and



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confidence, its difficult to say whether or not this will materialize into increased investment and employment.

The rest of the Washington Post article can be read [here](#). Once you've read the article, answer discuss the questions below and share your thoughts in a comment on this post.

Questions:

1. Why is consumer spending and confidence so important for businesses?
2. What role does business investment into capital play in the economy and why is it so important in leading the economy towards recovery?
3. Is there any benefit in the economy for consumers to save and pay off their debts now? Is this a rational decision given the current economic conditions?
4. If fiscal and monetary policies along with lower taxes for corporations are not the answer, then what is? What other possibilities are available for the government to implement?