

A Fresh Breath for the Economy

Every news headline in the world is hinting that the end of the recession is near, but what exactly does this mean for consumers? Will everything return to normal and how quickly, if at all, is this going to occur? In order to answer these very important questions, there needs to be an understanding of the cyclical patterns in the economy and the changes that occurred after WWII that helped to increase the likelihood of the Great Recession.

The economy is constantly moving in and out of periods of growth and decline as it tries to maintain a balance between the amount of money that consumers are borrowing and the amount of money that people are bringing in to their households. During times of expansion many people and companies tend to borrow a lot of money to help fund their growth and expansion, but over a long period of time they can get carried away. It becomes very easy for people to borrow too much, when the opportunities to have it all are just within their grasp and there appears to be no risk in sight. This increase in the amount of money that is borrowed, without a proportional increase in the amount of wealth brought in by each household is what helps contribute to the cause of a recession.

Recessions were very commonplace prior to World War II, in order to maintain the balance between the debt-to-income ratios. After World War II, many countries began to make changes that helped to cushion the imbalance in liquidity, and although it seemed like a quick fix to a perpetual problem, it was actually a problem in itself. These new policies actually created an increase in debt that built up over a period of time. The economy used to build up a normal amount of debt, due to growth in the marketplace both with companies and consumers, then drop into a period of recession to bring the debt bubble back to a more manageable state. With the policy cushions in place after WWII, the debt that accumulated after periods of growth was not fully able to reset back to a normal level. This allowed for debt buildup from the previous cycle to be carried through the slight period of recession into the next cycle of growth.

This effect was then multiplied by the government's call to have the American consumers spend more money to help drive the economy through the recessions. The increase in spending by the average consumer had to be funded somehow and it was usually through borrowing, which only added to the debt problem. Debt began to build up at exponential levels until finally the economy was just unable to handle it any longer and the debt bubble burst. With the economy spiraling out of control, the United States Government was left with two options. They could either let the Great Recession run its natural course, or borrow money and try to resuscitate the economy by offsetting the enormous reduction in consumer spending. Government attempts to help revive the floundering economy can be seen in the form of the numerous corporate bailouts and other projects such as the "cash for clunkers" program.

In the short run, it is difficult to see if these projects really had a major effect on helping to revive the economy from the Great Recession. One thing that the increase in government debt did do was transfer a lot of debt from the private sector into the public sector, so the idea of the Debt Supercycle, the debt that was building up since WWII, is not over yet. Moving forward, the process of unwinding this enormous amount of debt is now in the hands of the U.S. Government.

Moving into the future, it is going to be a few years before consumer spending can return to a higher, balanced level. It is going to be very difficult for any consumer to borrow much more than the amount that they make because of the complete imbalance between the amount of debt that exists and the amount of money that consumers are making. With a lack of borrowing comes a decrease in the number of products and services that Americans are able to purchase, so the average American will be forced to live more within their means.

Although this may seem like bad news, especially for the average American, it is actually a blessing in disguise. This is exactly what needed to happen in order to help reset the abundance in the level of debt that was floating around. In the long run, having more control over the amount of debt in the marketplace will help to create a more stable future for everybody in the United States and throughout the world. Although the past has not been totally erased, this transfer of debt has begun to create, what looks like a new beginning for many Americans. The transfer of debt, from the private to the public sector, has finally allowed the economy to begin to revive itself, through the increase in jobs in the marketplace as the unemployment dropped to 9.7% in January of 2010, as well as a slight increase in spending by consumers, which will slowly progress in coming years.