On Top of the $700 billion: US injects $800 billion as GDP shrinks

By Global Research
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The US government has announced it is pumping $800bn into the country's economy as a new report said its gross domestic product (GDP) shrank by more than expected.

The injection was announced on Tuesday as the US commerce department reported the US GDP fell by 0.5 per cent – its largest fall since the third quarter of 2001 when the September 11 attacks took place.

Earlier reports had predicted a 0.3 per cent decline.

The cash comes on top of the $700bn bailout agreed in October.

Many analysts believe the US has already joined Europe in recession, though it will take another quarter of contraction to meet its widely used definition of two consecutive quarters of declining output.

The Federal Reserve, the US central bank, announced on Tuesday it would inject the $800bn into the economy by purchasing mortgage and other asset-backed securities.

The bank said it would buy $100bn of the securities from housing-related Government-sponsored enterprises including Fannie Mae and Freddie Mac in the next week, and buy another $500bn in a process started by the end of this year.

Credit move

Separately, the bank said it would launch a programme to buy up to $200bn in securities backed by student loans, vehicle loans, credit card loans and other loans in a further effort to boost credit markets.

Some of the money for the new programme will come from the $700bn allocated by the US government in October as part of its bailout of Wall Street financial firms.

Henry Paulson, the US treasury secretary, said the $200bn programme should make it easier ordinary Americans to get loans.

"Millions of Americans cannot find affordable financing for their basic credit needs. And credit card rates are rising, making it more expensive for families to finance everyday purchases.

"This lack of affordable consumer credit undermines consumer spending and as a result weakens our economy."

The new efforts come as part of a move to restart consumer credit markets that froze up in October and bring down borrowing costs for the housing market, which remains at the centre of US economic woes following the subprime mortgage crisis.

Al Jazeera's John Terrett in New York said the authorities were attempting to revive the economy in the short term and would worry about the costs (such as inflation) at a later date.

Barack Obama, the US president-elect, who Paulson consulted on the new funds, also said his incoming administration would do more to cut wasteful spending by government in an attempt to help tackle US economic problems.

On Tuesday Obama announced two more members of his economic team, the latest names joining a long list of experts Obama hopes will pull the US out of its current economic turmoil.

Peter Orszag was named as head of the Office of Management and Budget while Rob Nabors was named deputy budget director. The office is responsible for developing and submitting the president's annual budget proposal's to US Congress.

Nabors has been the top staff aide on the House Appropriations Committee, which prepares spending legislation, while Orszag, an economist, was director of the US Congressional Budget Office.

As the top two officials at the office, Orszag and Nabors will closely examine federal spending to cut out wasteful programmes, Obama said.

"If we are going to make the investments we need, we also have to be willing to shed the spending that we don't need," he said.

GDP in decline

The US report on GDP came amid fears of a global economic slowdown that would reinforce any decline in the world's biggest economy.

The Organisation for Economic Coordination and Development warned on Tuesday that the world's leading industrialised nations face their worst economic downturn for 25 years.

"Many OECD economies are in or are on the verge of a protracted recession of a magnitude not experienced since the early 1980s," said the chief economist for the the organisation, Klaus Schmidt-Hebbel.

The latest revised US commerce department report showed consumer spending – which accounts for around 70 per cent of US economic activity – fell at 3.7 per cent pace, the steepest decline since 1980.

The struggling housing market remained a big drag on the economy, with investment in property down 17.6 per cent, the report said although that was slightly better than last month's estimate of a 19.1 per cent drop.

The report estimated GDP, the market value of the nation's output of goods and services, at $14.4 trillion, an increase of 3.6 per cent without adjustment for inflation.

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