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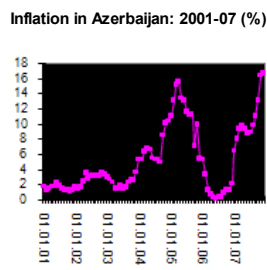
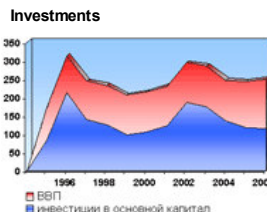
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Obama's Anti-crisis Plan will Rescue American Economy only Partially, Say Western Experts 27.11.08 11:04

Azerbaijan, Baku, 26 November /Trend Capital corr. A.Badalova/ International experts believe that efficiency of the package of measures to stimulate the American economy, which was suggested by the newly elected US President Barack Obama, will depend on its appropriate expediency.

Further help from an Obama stimulus package if properly targeted will help, Warren Coats, Senior Monetary Policy Advisor to the Central Bank of Iraq and former IMF advisor, said to Trend Capital via e-mail on 26 November.

In order to overcome the financial crisis in the United States, President Obama proposes a plan that provides for the preservation and creation of 2.5mln jobs by repairing roads and bridges, upgrading schools, working in the field of alternative

energy sources and reducing the tax burden for middle class Americans. This week, Obama has called all the key candidates for positions in his future economic team, who must now be approved by the Senate. Tim Geithner, former head of the New York Federal Reserve Bank, has been appointed Minister of Finance, and Larry Summers, former head of the National Economic Council, has been promoted to the position of Minister of Finance.

According to John Higgins, an economist of the British macroeconomic research consultancy Capital Economics, the economy still faces massive headwinds that tax cuts and government spending will only partly help to offset.

According to Coats, the American economy needs to restore confidence in its financial sector in order to support a badly needed shift from consumption to investment. Households need to save more and spend less and the financial sector needs to reduce the use of borrowed funds when investing and raise its lending standards, he said.

The challenge is that if these needed adjustments are made too quickly it will throw the economy into a recession. The Federal Reserve, U.S. Treasury, FDIC and other agencies have taken very aggressive steps to provide liquidity to the market and to inject additional capital into solvent banks and these measures should help restore bank and market lending to normal levels in the coming months, said Coats.

The risk is that measures to moderate the recession might reduce market discipline of poorly run enterprises and reckless borrowers (moral hazard) and rekindle new bubbles There is also the risk of complicating efforts needed over the next few years to reduce large government deficits, especially arising from pension and health care commitments, said Coats.

Iwan Azis, Macroeconomic Professor at the Cornell University, USA, believes the stimulating measures may have both positive and negative effects.

The challenge is how to find a policy that has the maximum benefits and smallest side effect, Azis said to Trend Capital via e-mail on 26 November.

According to Azis, in this context, Obama's policy is clearly on two fronts: short term and long term. The short term one focuses on two things, first is to stimulate the real sector of the economy by creating 2.5 million jobs and providing relief to middle-class families, and second is to rescue the troubled financial sector.

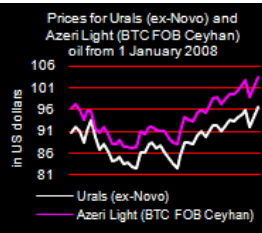
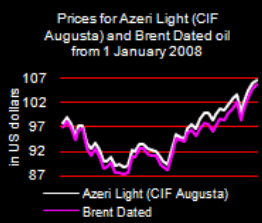
Azis believes increase in fiscal deficit may become an unwanted effect of a short-term policy.

According to Azis, the statement by Obama how to reduce some spending is a long term policy.

Obama voiced his intention to make changes in the federal budget. The newly elected President said that when one simultaneously faces rising deficit and sinking economy, budgetary reforms are not an option but a necessity.

The effectiveness of those policies, however, depend very much on the implementation and the detailed steps of every single rescue package to resolve the short term challenge, Azis said.

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Azis believes that most but not all of the proposed programs will help at least to prevent the US economy from falling further. The key at this moment is to prevent a deflation.

“Once the economy enters a deflation stage then it will take a long time to recover. The Japanese recession that began in early 1990s is a living example,” he said.

The correspondent can be contacted at capital@trend.az

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