

## Summary

### ASP Special Lecture

#### **“Recession and Recovery: The U.S. Experience and Implications for Thailand”**

Wednesday, 13 January, 2010

The Political Alumni Conference Room,  
Faculty of Political Science, Chulalongkorn University

In collaboration with the U.S. Embassy Bangkok

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**Presenter:** Dr. Phillip L. Martin, Department of Agriculture and Resource Economics, University of California at Davis

**Discussant:** Dr. Somchai Jitsuchon, Research Director, Thailand Development Research Institute

**Moderator:** Mr. Robert Fitts, Director of American Studies Program

The American Studies Program (ASP) is part of the Institute of Security and International Studies (ISIS) and has been recently established to increase understanding of the United States in Thai society. This special lecture sought to illustrate the continuing though indirect economic influences that the two nations have on each other.

#### **Key points from Dr. Phillip Martin**

##### **The Boom**

- Low interest rates, rapid population growth, and the willingness of the world to finance the U.S. debt led to unsustainable expansions in U.S. housing, consumption and imports. More people were drawn into buying houses and consuming goods. Increasing imports led to massive trade deficits at the height of the boom.
- Housing/condo appreciation had been the trend from 2000-2006, when people bought houses to renovate before selling them for a profit with no intention of moving in (illustrated by an American television series called *Flip This House*). This trend led to job creation, higher imports and speculative activities. But, it depended on ever increasing housing prices.

- Increasing housing prices often gave people more income (via refinancing) than their salaries from work.
- Banking ‘innovations’ encouraged people to buy houses they really could not afford, i.e. no down payment and no documentation of income required for the banks to lend people money to buy houses. This also led to the habit of consuming more than what you earn.
- The employment rate continued very positive from 2003-2007.
- Though a housing bubble had been identified by some, it was missed by most policy makers until it burst.

### **The Bust and the Current State of U.S. Economy**

- The recession, starting in December 2007 with the stock market and the housing prices falling, was the worst in many decades.
- It is a private sector recession. The private sector employment (primary manufacturing, construction and trade) had been most affected.
- Rapid job losses and company bankruptcies had a strong impact on psychology of consumers.
- The recovery now taking place has been led by massive federal spending – the stimulus packages of 700 billion dollars in 2008 to rescue financial institutions and 787 billion dollars in 2009 to stem the downturn, which primarily protected public employment. A possible third stimulus package is under the discussion.
- A private sector-led recovery will have to replace the federal stimulus, because financing is limited and the U.S. economy is primarily private-sector oriented.
- There are signs of recovery although the medium term trend is yet unclear. The stock market is currently taking an upturn and business confidence has been restored. But the unemployment rate remains very high, bank lending remains slow, housing prices remain very low and state governments face increasing budget deficits.
- Unlike the saving and loan crisis in the 1980s, this economic recession has not resulted in internal migration because there is currently no boom area in the country.
- ‘Buy America’ language has been incorporated in several stimulus packages as a political necessity to show the government is protecting American employment. That and a new frugality among the American people (changing in the mindset of American consumers to more saving) could have an impact on Asian exports.
- In early 2009, US imports from the world had already dropped by one-third.

### **The U.S. Recovery and implications for Asia**

- The main focuses in the U.S. recovery effort are as follows:

1. Jobs and economic growth:

The unemployment social safety net has greatly expanded. Unemployment benefits have been provided up to 99 weeks instead of the usual 26 weeks to about 40 per cent of those who lost their jobs to enable them keep consuming.

## 2. Health care reform:

This is because the U.S. spends 2.6 trillion dollars a year on health care, which is equivalent to the British GDP. Yet, 46 million people were still not covered by health insurance in 2008 and private sector employers had to pay an average of 3.50 dollars per hour for health insurance. The new health care system is currently being negotiated between the House and the Senate.

## 3. Financial regulation

This is in order to avoid another Wall Street meltdown. But it is still unclear who is going to lead the financial reform. It is important to note that the impetus to reform decreases as the economy gets better.

## 4. Climate change

A new act on clean energy has been passed by the House. It will put in place 'a cap and trade' system. Emissions by companies will be regulated. They will be given permits for certain levels of emissions and will be required to pay if they exceed the limit.

- "Letter economics" has emerged in discussion of the shape of growth for the recovery. Will it be a virtuous V, a slow U, a double dipping W, or an unrecovering L?
- Regardless of what letter will best represent the recovery in the U.S., the main questions to ask for the economic resilience and the implications for Asia is whether American consumers will go back to spending, whether the U.S. government will be able to continue to stimulate the economy by selling debt, and whether China and Japan will continue to buy American debt.
- Some impact on Thailand may come from the 'Buy America' language which is gaining support in domestic U.S. politics.
- More importantly, the new frugality among the American public could stop the U.S. from being a big market for goods exported from Thailand and Asia. It is worthy of note that much of Thai manufactured exports to China are then incorporated in products that are re-exported to the U.S.
- In order to reverse high trade deficits, the U.S. hopes to see the Chinese Yuan appreciate much further and for Asia to be like the U.S., i.e. to change from export-led growth to more internal consumption. This would also raise imports from the U.S.

## Key points from Dr. Somchai Jitsuchon

- Thailand's economic boom leading up towards the 1997 crisis were similar to those of the U.S. already explored by Dr. Martin. However, there are some differences after the bubbles burst.
- Like the U.S. after the recent recession, the Thai government has issued a stimulus package.
- However, we did not have a financial crisis here this time around. This may explain why Thailand and other Asian economies have proceeded to recovery more quickly than the West.
- Thailand has also not experienced high unemployment rates this time. while it went up to 5-6 per cent during the 1997 crisis. The housing industry has not been affected and the poverty rate has remained rather stable.
- Thailand's exports have relied on various markets apart from that of the U.S. If the U.S. recession did not develop into a global recession, Thai exports would not have been much affected.
- The recovery already experienced in Asia has largely been a result of the stimulus packages, especially that of China. It should be noted that stimulating the economy is not sustainable as it does not create lasting growth. Rather, it only prevents the problem from becoming worse.
- The global trade imbalance between the U.S. and Asia is an important issue stemming from the U.S. recession. Has this imbalance already been corrected? Have we seen Asians already consuming more? The answer is that the correction has already begun taking place, starting from the second quarter of 2009. While the correction has been witnessed in the U.S., the Chinese economy remains continues on the same trend. It remains unclear how long the correction will be sustained.
- To encourage the correction of the global economic imbalance, Asia needs to:
  1. Trade within the region through AFTA/AEC. This will likely generate more regional growth to enable import from the U.S.
  2. Improve social safety nets to enable people to feel more secure about their living conditions and decrease their savings while consuming more
  3. Tackle economic inequality so the poor would have the resources to consume more
  4. Improve and strengthen regional financial infrastructures

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