

Confidence a key to recent economic initiatives, U. of I. expert says

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Restoring confidence in the sputtering U.S. economy is at the heart of recent moves to shore up the nation's lagging financial and housing markets, a University of Illinois economist says.

Anne Villamil says propping up faith in an economy teetering on the brink of recession is as important as more tangible initiatives such as financial lifelines for cash-strapped mortgage lending giants Fannie Mae and Freddie Mac.

"Savers must be confident that they will have access to their funds," she said. "Borrowers must be confident they can obtain credit. Maintaining the confidence of foreign lenders is especially important."

China and Japan are the two top stakeholders in the growing U.S. foreign debt, and jitters could affect future loans, Villamil said.

Japan also has a reported \$56 billion stake in Fannie Mae and Freddie Mac, which own or insure 40 percent of U.S. residential mortgages and would qualify for unlimited amounts of government credit under a House bill approved Wednesday.

"When you are a debtor, as the U.S. now is and will be for some time, it is important to have a good relationship with your lenders," she said.

"Were the U.S. to face difficulty finding lenders abroad, interest rates would rise and the U.S. economy would be under even more pressure."

The House bill also includes \$300 billion to provide affordable mortgages for struggling homeowners and a \$7,500 tax credit for first-time homebuyers. Senate approval is expected within days, and President Bush earlier dropped a threat to veto the legislation.

Villamil says the housing market and U.S. economy continue to struggle despite aggressive moves by the Federal Reserve, Treasury Department and Congress. Overall, home prices continue to fall and default rates continue to rise.

"Surging energy prices add to the strain, as do the rising levels of U.S. government debt and consumer debt," she said. "Unfortunately, there is no quick fix for this adjustment problem. These problems will continue to be challenges for the new administration."

Source: University of Illinois at Urbana-Champaign

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