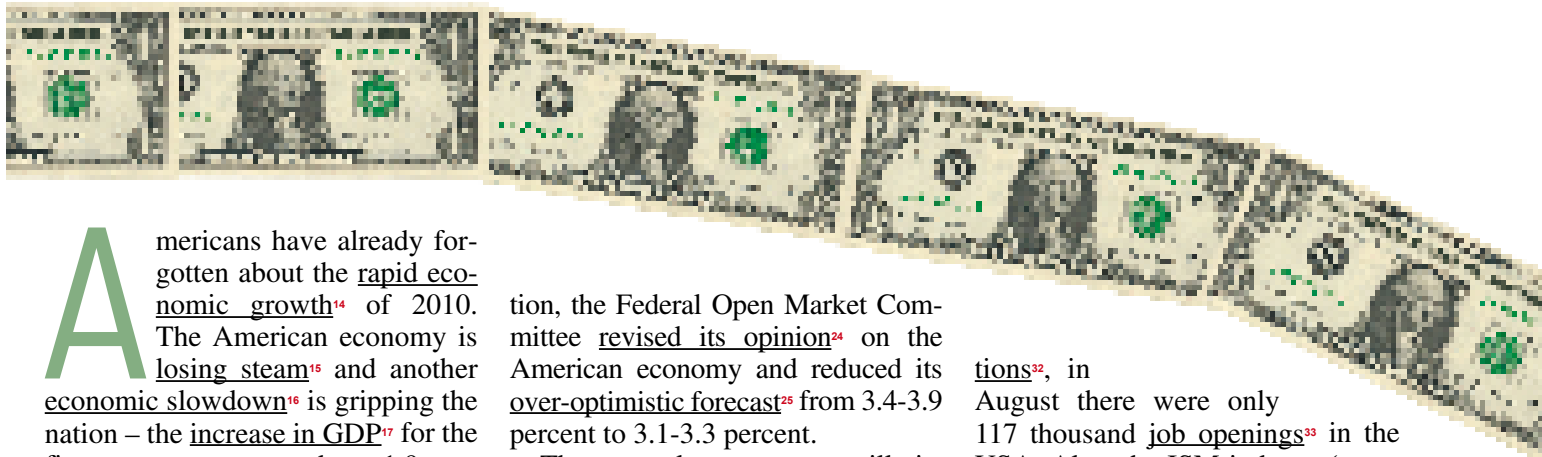


# The End of the American Dream

by Daniel Starski and Tomek Puchalski

It's been a few years since the economic bubble<sup>1</sup> burst<sup>2</sup> and the crisis started in the USA. The 2007 real-estate<sup>3</sup> crash<sup>4</sup> and collapse<sup>5</sup> of the Lehman Brothers investment bank<sup>6</sup> affected<sup>7</sup> the globe. Regardless of the fact that<sup>8</sup> in June 2009 it was officially stated that the economic recession<sup>9</sup> in the USA was over, all experts and investors are anxiously<sup>10</sup>, and with bated breath<sup>11</sup>, watching the largest economy<sup>12</sup> as it struggles<sup>13</sup> to survive.



Americans have already forgotten about the rapid economic growth<sup>14</sup> of 2010. The American economy is losing steam<sup>15</sup> and another economic slowdown<sup>16</sup> is gripping the nation – the increase in GDP<sup>17</sup> for the first quarter<sup>18</sup> amounted to<sup>19</sup> 1.9 percent with only 1.3 percent for the second quarter. The International Monetary Fund (IMF)<sup>20</sup> reacted in April and has reduced its economic growth forecast<sup>21</sup> for the USA from 2.8 percent to 2.5 percent in 2011 and from 2.9 percent to 2.7 percent in 2012. The IMF suggested that the federal government<sup>22</sup> needs to do something about the growing deficit<sup>23</sup>. In addition,

the Federal Open Market Committee revised its opinion<sup>24</sup> on the American economy and reduced its over-optimistic forecast<sup>25</sup> from 3.4-3.9 percent to 3.1-3.3 percent.

The unemployment rate<sup>26</sup> still sits at around 9 percent. According to<sup>27</sup> data provided in August, it is currently 9.1 percent (and 9.2 percent in July). This means that over 13.9 million Americans are currently without work. Should the jobless rate<sup>28</sup> decrease<sup>29</sup>, the employment outside the agricultural sector<sup>30</sup> needs to grow at a steady rate<sup>31</sup> of about 150 thousand per month. According to calcula-

tions<sup>32</sup>, in August there were only 117 thousand job openings<sup>33</sup> in the USA. Also, the ISM indexes (measuring the changes in mood<sup>34</sup> in the industry<sup>35</sup> and the service sector<sup>36</sup>) is dropping – the August result was the lowest in two years, and the PMI index indicates<sup>37</sup> that the mood of the average American consumer is going from bad to worse<sup>38</sup>.

Unfortunately, even though in June the Fed concluded<sup>39</sup> the second round of the monetary easing<sup>40</sup> QE2 (the sec-

<sup>1</sup> **economic bubble** | bańka spekulacyjna

<sup>2</sup> **burst** | wybuchnąć

<sup>3</sup> **real-estate** | nieruchomości

<sup>4</sup> **crash** | krach

<sup>5</sup> **collapse** | upadek

<sup>6</sup> **investment bank** | bank inwestycyjny

<sup>7</sup> **to affect** | mieć wpływ na

<sup>8</sup> **regardless of the fact that** | pomimo tego/faktu, że

<sup>9</sup> **economic recession** | recesja ekonomiczna

<sup>10</sup> **anxiously** | z niepokojem

<sup>11</sup> **with bated breath** | z zapartym tchem

<sup>12</sup> **largest economy** | największa gospodarka

<sup>13</sup> **to struggle** | usiłować, walczyć o coś

<sup>14</sup> **rapid economic growth** | szybki wzrost ekonomiczny

<sup>15</sup> **to lose steam** | tracić siłę, dostawać zadyszki

<sup>16</sup> **economic slowdown** | spowolnienie

gospodarcze

<sup>17</sup> **increase in GDP** | wzrost PKB

<sup>18</sup> **quarter** | kwartał

<sup>19</sup> **to amount to** | wynosić

<sup>20</sup> **International Monetary Fund (IMF)** | Międzynarodowy Fundusz Walutowy (MFW)

<sup>21</sup> **economic growth forecast** | prognoza wzrostu ekonomicznego

<sup>22</sup> **federal government** | rząd federalny

<sup>23</sup> **growing deficit** | rosnący deficyt

<sup>24</sup> **to revise one's opinion** | zrewidować swoje opinie

<sup>25</sup> **over-optimistic forecast** | przesadnie optymistyczna prognoza

<sup>26</sup> **unemployment rate** | wskaźnik bezrobocia

<sup>27</sup> **according to** | według

<sup>28</sup> **jobless rate** | wskaźnik bezrobocia

<sup>29</sup> **to decrease** | spaść

<sup>30</sup> **employment outside the agricultural sector** | zatrudnienie poza sektorem rolniczym

<sup>31</sup> **at a steady rate** | w równym tempie

<sup>32</sup> **calculations** | obliczenia

<sup>33</sup> **job openings** | nowe miejsca pracy

<sup>34</sup> **changes in mood** | zmiany w nastrojach

<sup>35</sup> **industry** | przemysł

<sup>36</sup> **service sector** | sektor usług

<sup>37</sup> **to indicate** | wskazywać

<sup>38</sup> **(to go) from bad to worse** | iść coraz gorzej, pogarszać się

<sup>39</sup> **to conclude** | zakończyć

<sup>40</sup> **monetary easing** | luzowanie polityki monetarnej

ond bond-buying program<sup>41</sup>, which ended up<sup>42</sup> with repurchasing<sup>43</sup> bonds worth USD 600 bln, compared with USD 1.6 trln in QE1), the economic situation hasn't improved. Fed Chairman<sup>44</sup> Ben Bernanke said "a little bit of time to see what happens would be useful", but signals of QE3 were heard even before QE2 has ended.

Some economic analysts are becoming increasingly worried with the macroeconomic forecasts for the USA economy. "There were fears we were going into recession<sup>45</sup> and this allays<sup>46</sup> those fears, but the labor market<sup>47</sup> is still sick, and it reminds us of the enormously steep<sup>48</sup> hill we have to climb", said Josh Feinman, chief global economist with DB Advisors. In July/August, nine consecutive sessions on the American stock market were closed with a loss – a situation that hasn't occurred<sup>49</sup> for decades.

However, the worst thing arousing<sup>50</sup> fears in investors is an enormous<sup>51</sup> public debt<sup>52</sup>,

amounting to an astronomical<sup>53</sup> USD 14.3 trln – approximately<sup>54</sup> USD 47 thousand per citizen. This debt equals<sup>55</sup> 95 percent of the American GDP. Only in August was spending<sup>56</sup> USD 120 bln higher than income<sup>57</sup>. Before 2007, the public debt remained at a safe 65 percent level (the same as in 1996), however a multi-billion dollar injection pumped into<sup>58</sup> the American economy to save what was left after the crisis, nearly doubled<sup>59</sup> the 2007 debt.

August 2 – the final countdown<sup>60</sup>

August 2 was the last day that the federal government had enough money to settle its liabilities<sup>61</sup> within<sup>62</sup> the debt limit<sup>63</sup> set at<sup>64</sup> USD 14.3 trln. This regulatory instrument was implemented<sup>65</sup> in 1917 through the Second Liberty Bond Act (the first limit was set to USD 11 bln). It was increased many times during the two World Wars and since the 1960's it has been increased over 70 times.

However, this time the decision also meant that some budgetary savings<sup>66</sup> had to be made as well.

Looking at the debate over<sup>67</sup> this year's budget, one may have easily predicted<sup>68</sup> a fierce conflict<sup>69</sup> between the Republicans and the Democrats. The 2011 budget was passed<sup>70</sup> on April 14 (in the USA the fiscal year<sup>71</sup> ends in September 30).

Treasury Secretary<sup>72</sup> Timothy Geithner sent a letter to Congressmen in January warning that "*failure to raise the limit would precipitate a default<sup>73</sup> by the United States. Default would effectively impose<sup>75</sup> a significant<sup>76</sup> and long-lasting<sup>77</sup> tax on all Americans and all American businesses and could lead to<sup>78</sup> the loss of millions of American jobs. Even a very short-term<sup>79</sup> or limited<sup>80</sup> default would have catastrophic economic consequences<sup>81</sup> that would last for decades<sup>82</sup>.*"

An original<sup>83</sup> austerity package<sup>84</sup> proposed by Barack Obama that ►



<sup>41</sup> **bond-buying program** | program wykupu obligacji  
<sup>42</sup> **to end up** | *tu*: zakończyć się  
<sup>43</sup> **to repurchase** | odkupić  
<sup>44</sup> **Chairman** | prezes  
<sup>45</sup> **to go into recession** | popadać w recesję  
<sup>46</sup> **to allay** | uśmierzać  
<sup>47</sup> **labor market** | rynek pracy  
<sup>48</sup> **steep** | stromy  
<sup>49</sup> **to occur** | wydarzyć się  
<sup>50</sup> **arousing** | podniecający  
<sup>51</sup> **enormous** | ogromny  
<sup>52</sup> **public debt** | dług publiczny  
<sup>53</sup> **to amount to astronomical (value)** | osiągnąć astronomiczną (wielkość/wartość)  
<sup>54</sup> **approximately** | około  
<sup>55</sup> **to equal** | równać się  
<sup>56</sup> **spending** | wydatki  
<sup>57</sup> **income** | dochód  
<sup>58</sup> **to pump into** | wpompowywać  
<sup>59</sup> **to double** | podwajać

<sup>60</sup> **countdown** | odliczanie  
<sup>61</sup> **to settle its liabilities** | regulować należności  
<sup>62</sup> **within** | w ramach  
<sup>63</sup> **debt limit** | limit zadłużenia  
<sup>64</sup> **to be set at** | być ustalonym na (jakąś kwotę)

<sup>76</sup> **significant** | znaczny  
<sup>77</sup> **long-lasting** | długotrwały  
<sup>78</sup> **to lead to** | prowadzić do  
<sup>79</sup> **short-term** | krótkoterminowy  
<sup>80</sup> **limited** | ograniczony  
<sup>81</sup> **consequences** | konsekwencje  
<sup>82</sup> **to last for hours/days/weeks/years/decades** | trwać przez godziny/dni/tygodnie/lata/dziesięciolecia  
<sup>83</sup> **original** | pierwotny  
<sup>84</sup> **austerity package** | pakiet naprawczy/oszczędnościowy w formie ustawy

<sup>65</sup> **to implement** | wprowadzać w życie (decyzję, np. w formie ustawy)  
<sup>66</sup> **budgetary savings** | oszczędności budżetowe  
<sup>67</sup> **a debate over** | debata nad  
<sup>68</sup> **to predict** | przewidywać  
<sup>69</sup> **a fierce conflict** | ostry konflikt  
<sup>70</sup> **to pass a budget** | uchwalać budżet  
<sup>71</sup> **fiscal year** | rok budżetowy  
<sup>72</sup> **Treasury Secretary** | Sekretarz Skarbu  
<sup>73</sup> **to precipitate** | przyspieszać  
<sup>74</sup> **a default** | niewywiązywanie się z płatności  
<sup>75</sup> **to impose** | nakładać



implied<sup>85</sup> savings of around USD 4 trln within 10 years' time<sup>86</sup> haven't been approved by<sup>87</sup> the 'Grand Old Party' (GOP)<sup>88</sup>. The source of conflict<sup>89</sup> was where the savings should come from. The Republicans, who have majority over<sup>90</sup> the Democrats in the House of Representatives<sup>91</sup>, refused to accept<sup>92</sup> any tax increase. The Democrats, who on the other hand hold the Senate, refused any cuts<sup>93</sup> in security, welfare<sup>94</sup>, benefit freeze<sup>95</sup> or any other similar ideas.

Eventually<sup>96</sup> a compromise was reached<sup>97</sup> on July 31, with the House of Representatives passing the Budget Control Act<sup>98</sup> of 2011 with 269 votes for versus 161 against<sup>99</sup> and the Senate 74 to 26. Barack Obama signed it on August 2. The agreement allows the increase of<sup>100</sup> USD 2.4 trln in public debt and imposes<sup>101</sup> savings of the equal amount within the next 10 years. The entire procedure was divided into two steps. After implementation, the debt limit will

be automatically increased by USD 900 bln and by the end of the year by another USD 1.5 trln. The increase will be effective on condition that<sup>102</sup> initial<sup>103</sup> savings of USD 917 bln (one third of it should come from the military budget) are made. The source of the USD 1.5 trln cuts will be chosen by a specially assigned<sup>104</sup> interparty<sup>105</sup> commission in Congress, composed of<sup>106</sup> 12 representatives<sup>107</sup> from the House of Representatives and the Senate. The savings are to be made in 2013 (in 2012 they will only amount to USD 6 bln). The commission has a deadline<sup>108</sup> set<sup>109</sup> till November 23. Should no decision be reached<sup>110</sup> (with the minimum savings of USD 1.2 trln), automatic savings will be implemented in 2012. It is estimated that the largest cutbacks<sup>111</sup> will be in the budgets for the Pentagon, Medicare and Social Security.

The next step in the Budget Control Act of 2011 will be an amendment<sup>112</sup> in the federal constitution ordering<sup>113</sup> future governments to pass only balanced budgets<sup>114</sup>.

The reached agreement saved the US economy from facing the first default in history, however the markets<sup>115</sup> have reacted with a steep fall<sup>116</sup> of their indexes. Even Geithner mentioned that the agreement doesn't guarantee any stability<sup>117</sup> or that the USA will maintain<sup>118</sup> their top-notch<sup>119</sup> credit rating.

### American Rating – a lost trust<sup>120</sup>

Up until now, the American economy has been regarded by the rating agencies<sup>121</sup> as one of the most trustworthy<sup>122</sup>. However, due to the prolonged<sup>123</sup> political stalemate<sup>124</sup>, both the agencies and the markets have lost their confidence in<sup>125</sup> Uncle Sam. On April 18 2011, Standard & Poor's (S&P) changed the long-term rating forecast<sup>126</sup> from stable to negative. This means that in the opinion of their analysts there was a 33 percent chance that the USA will lose its top-notch credit rating within the following 18 months. The next step taken by S&P was the actual downgrade<sup>127</sup> from triple A<sup>128</sup> to AA+, (the first time it has happened in history). The decision was announced on August 5, just

<sup>85</sup> to imply | zakładać

<sup>86</sup> within 10 years' time | w ciągu 10 lat

<sup>87</sup> to be approved by | być zaakceptowanym przez

<sup>88</sup> 'Grand Old Party' (GOP) | inna nazwa partii republikańskiej

<sup>89</sup> source of conflict | źródło konfliktu

<sup>90</sup> to have majority over | mieć przewagę nad

<sup>91</sup> House of Representatives | izba niższa w systemie parlamentarnym USA

<sup>92</sup> to refuse to accept | nie wyrażać zgody na

<sup>93</sup> cuts | cięcia

<sup>94</sup> welfare | zasiłek

<sup>95</sup> benefit freeze | zamrożenie wydatków socjalnych

<sup>96</sup> eventually | ostatecznie

<sup>97</sup> to reach a compromise | osiągnąć kompromis

<sup>98</sup> to pass the Budget Control Act | uchwalić ustawę (w tym wypadku budżetową)

<sup>99</sup> with 269 votes for versus 161 against | z 269 głosami za i 161 przeciw

<sup>100</sup> increase of | wzrost rzędu

<sup>101</sup> to impose | *tu*: narzucać

<sup>102</sup> to be effective on condition that | będzie w mocy w przypadku, jeśli/pod warunkiem

<sup>103</sup> initial | pierwszy/wstępny

<sup>104</sup> to be assigned | być wyznaczonym/mianowanym

<sup>105</sup> interparty | międzypartyjny

<sup>106</sup> to be composed of | składać się z

<sup>107</sup> representative | reprezentant

<sup>108</sup> deadline | ostateczny termin

<sup>109</sup> set to | ustalony na (jakąś datę)

<sup>110</sup> to reach a decision | podjąć decyzję

<sup>111</sup> cutbacks | cięcia

<sup>112</sup> amendment | poprawka (np. do konstytucji)

<sup>113</sup> to order | nakazywać

<sup>114</sup> balanced budget | zbilansowany budżet

<sup>115</sup> the markets | *tu*: rynki finansowe

<sup>116</sup> steep fall | stromy spadek, *tu*: ostry spadek indeksów

<sup>117</sup> stability | stabilność

<sup>118</sup> to maintain | utrzymać

<sup>119</sup> top-notch | pierwszorzędny, najwyższy

<sup>120</sup> trust | zaufanie

<sup>121</sup> rating agency | agencja ratingowa

<sup>122</sup> trustworthy | godny zaufania

<sup>123</sup> prolonged | przedłużający się

<sup>124</sup> political stalemate | impas polityczny

<sup>125</sup> to lose their confidence in | tracić zaufanie wobec kogoś

<sup>126</sup> long-term rating forecast | długoterminowa prognoza ratingowa (dotycząca możliwego obniżenia ratingu bądź utrzymania na obecnym poziomie)

<sup>127</sup> to downgrade | obniżyć

<sup>128</sup> triple A (AAA) | potrójne A – w przypadku agencji Standard & Poor's jest to najwyższy rating oznaczający bardzo stabilną i godną zaufania gospodarkę

after the American stock exchange<sup>129</sup> was closed, so that investors would have some time to get used to<sup>130</sup> this fact. “More broadly, the downgrade reflects<sup>131</sup> our view that the effectiveness, stability, and predictability of the American policy-making and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned<sup>132</sup> when we assigned a negative outlook<sup>133</sup> to the rating on April 18, 2011”, said S&P, justifying<sup>134</sup> its decision. This has caused Asian indexes to plummet<sup>135</sup>. S&P warned on July 14 that it would downgrade the USA’s rating if the savings in the passed budget didn’t reach at least a USD 4 trln threshold<sup>136</sup>. According to JP Morgan estimates, the downgrade will increase the debt cost<sup>137</sup> by around USD 100 bln annually<sup>138</sup> (currently it amounts to around USD 400 bln annually).

However, S&P isn’t the first rating agency that downgraded the American rating. Chinese agency China’s Dagong Global Credit Rating Co. has already made this decision twice this year, firstly from AA to a A+ level (during the first months of 2011) and then on August 4 from A+ to A and announced a negative outlook. What’s interesting is that Po-

land also has an A rating (but without the negative outlook).

Other rating agencies (Moody’s and Fitch Investors) are still observing the financial situation of the US, although the former said it can’t rule out<sup>139</sup> that they will need to make a similar decision as S&P, if the federal government doesn’t increase the planned savings.

Both the downgrade in ratings and very negative data from the American economy may have undesirable effects<sup>140</sup>, among them the possibility of another recession. Complaints by the Treasury<sup>141</sup> that S&P has made a serious mathematical mistake in their calculations and that their decision wasn’t based on<sup>142</sup> false data<sup>143</sup> (or, as

suggested<sup>144</sup>, wrong algorithm<sup>145</sup>) but on political situation, will not change anything. Especially that, as the S&P stated in their Saturday midnight statement, “the primary focus remained on the current level of debt, the trajectory of debt as a share of the economy, and the lack of apparent<sup>146</sup> willingness<sup>147</sup> of elected officials<sup>148</sup> as a group to deal with the US medium term fiscal outlook.” Currently the markets expect, and hope, that Q3 will have a positive impact on the labor market. Until this happens, the only thing left is to believe Barack Obama that the government along with the Congress will “do everything in [their] power to grow this economy and put America back to work”. ■

REKLAMA

**notowdroge.com**  
Rezerwuj **bilety lotnicze**  
oraz **hotele** na całym  
świecie przez Internet

**notowdroge.pl**  
Internetowe biuro podróży

**notowdroge.pl**  
Rezerwuj wakacje  
przez Internet

- <sup>129</sup> **stock exchange** | giełda papierów wartościowych
- <sup>130</sup> **to get used to** | przyzwyczać się do
- <sup>131</sup> **to reflect** | odzwierciedlać
- <sup>132</sup> **to envision** | przewidywać, wyobrażać
- <sup>133</sup> **outlook** | perspektywa/prognoza
- <sup>134</sup> **to justify** | uzasadniać
- <sup>135</sup> **to plummet** | gwałtownie spadać
- <sup>136</sup> **threshold** | próg, pułap
- <sup>137</sup> **debt cost** | koszt spłaty długu
- <sup>138</sup> **annually** | rocznie
- <sup>139</sup> **to rule out** | wykluczać
- <sup>140</sup> **undesirable effects** | niepożądane efekty
- <sup>141</sup> **Treasury** | Skarb Państwa/Ministerstwo Skarbu
- <sup>142</sup> **based on** | oparty na
- <sup>143</sup> **false data** | błędne dane
- <sup>144</sup> **as suggested** | jak się sugeruje
- <sup>145</sup> **algorithm** | algorytm
- <sup>146</sup> **apparent** | widoczny
- <sup>147</sup> **willingness** | chęć
- <sup>148</sup> **elected officials** | wybrani przez naród urzędnicy