Is a Double-Dip Recession on the Way?

John Mauldin writing on his weekly e-letter, Thoughts from the Frontline, believes there is a 50 percent chance for the U.S. economy to slip into another recession. He expects the economy to soften in the second-half of 2010. Then, the negative ripple effect of a large tax increase on the wealthy (after expiring President Bush’s tax cuts) will tip the economy into recession in 2011.

Mauldin gives two main reasons for the risk of another recession. First, he notes that bank lending is still in a freefall. If this trend continues just a little while longer, bank lending will have fallen by 25 percent in about two years. This decline, he asserts, is unprecedented in modern economic history.

Secondly, if the economy slips into another recession, economic policy-makers - blaming that on some factors other than the tax increase - would ask for more massive stimulus. Additional discretionary spending will increase the federal budget deficit and inflate the national debt. As a result, we will face a “debt-bubble” that is getting ready to burst.

Although a double-dip recession is a very rare occurrence, Maudlin sees it a real possibility.

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