

*Greider on Globalization  
Germany Fires Back  
Boskin on Obama*

OBAMA'S  
500-DAY REPORT CARD

THE

# INTERNATIONAL ECONOMY

The Magazine of International Economic Policy

SPRING 2009 • \$18

[www.international-economy.com](http://www.international-economy.com)

1<sup>st</sup> 100 Days  
REPORT CARD



INFLATION

☒ ☐

GDP GROWTH

☒ ☐

EMPLOYMENT

☐ ☐

TRADE

☒ ☐

Day  
500



*Consumption and assets will probably both rise together from a lower base.*

**DAVID MALPASS**

*President, Encima Global, and former Deputy Assistant Treasury Secretary for Developing Nations and Deputy Assistant Secretary of State*

**C**onsumption and assets will probably both rise together from a lower base, but the relationship isn't causal.

Personal consumption depends heavily on lifetime earnings expectations. Input factors include expectations for employment and for earnings growth. The current crisis is hitting employment probabilities, the level of current earnings, and expectations for earnings growth, arguing that consumption will start growing again but from a lower base and at a slower rate than expectations a year ago.

I attribute this decline in U.S. current and expected living standards to the deterioration in the labor and profit environment more than the decline in asset prices.

While the common perception is that mortgage equity withdrawals, house price gains, and stock market appreciation earlier in the decade funded excessive growth in consumption, the data doesn't support this perception. Real consumption grew more slowly in this decade than in the 1990s even though population was probably growing faster. The three-year annualized real consumption growth rate hit 5 percent in the late 1990s, versus a 3.4 percent peak in the 2000s. Net additions to financial assets by U.S. households—the actual new money flows not counting market gains—were very strong earlier in the decade. This more than absorbed the increase in mortgage equity withdrawals. In effect, people had more cash but put a lot into financial assets, not just consumption and houses.

From a policy standpoint, there are two lessons. First, avoid the super-low Fed interest rates that fueled the 2003–06 global bubble in house prices and construction. To help judge the appropriateness of monetary policy, the Fed should pay more attention to changes in the absolute value of the dollar (not trade-weighted, since it also measures changes in the value of foreign currencies). Second, reduce large tax and regulatory distortions like the deductibility of mortgage interest and the broad Washington policy pressure for ever-higher home ownership rates regardless of loan quality.