Feldstein: Recovery Is Grossly Exaggerated

Thursday, 10 Dec 2009 08:08 AM

By: Gene J. Koprowski

Reports of the economic rebound in the U.S. have been greatly exaggerated, opines Harvard University economics professor Dr. Martin Feldstein, a former White House economic adviser.

During a talk in New York City, Feldstein noted that the current recession "has been the longest, the deepest, and the most damaging" of all recessions the U.S. has suffered in its history, a report in the Yeshiva University student newspaper indicated.

Feldstein reckons that President Obama's $800 billion-dollar stimulus package is the source of all the continuing economic malaise.

The Obama stimulus plan was inspired by the idea of the "Keynesian Multiplier"-that the economy is best stimulated by government spending, Feldstein says.

But the only time this has really worked in U.S. history was during World War II.

"For the typical recession, the Keynesian Multiplier doesn't work," says Dr. Feldstein, observing that a peak-to-trough recession is when a strong economy rapidly descends into a recession.

The Obama administration failed to take the unique circumstances of the current recession into account. The fall in the value of homes, the malaise of the stock market, and a depression in consumer spending sparked the recession.

There will not likely be a 2010 rise in consumer spending parallel to the government stimulus which could close the growing government spending deficit.

Dr. Feldstein warned his audience not to be misled by the optimistic signs of a recovering economy, including rebounding home prices.

Others agree, in part. The Financial Times is reporting that the economic recovery is spreading and strengthening slightly, but the rebound remains “subdued.”

http://moneynews.com/StreetTalk/economic-rebound-/2009/12/10/id/339645