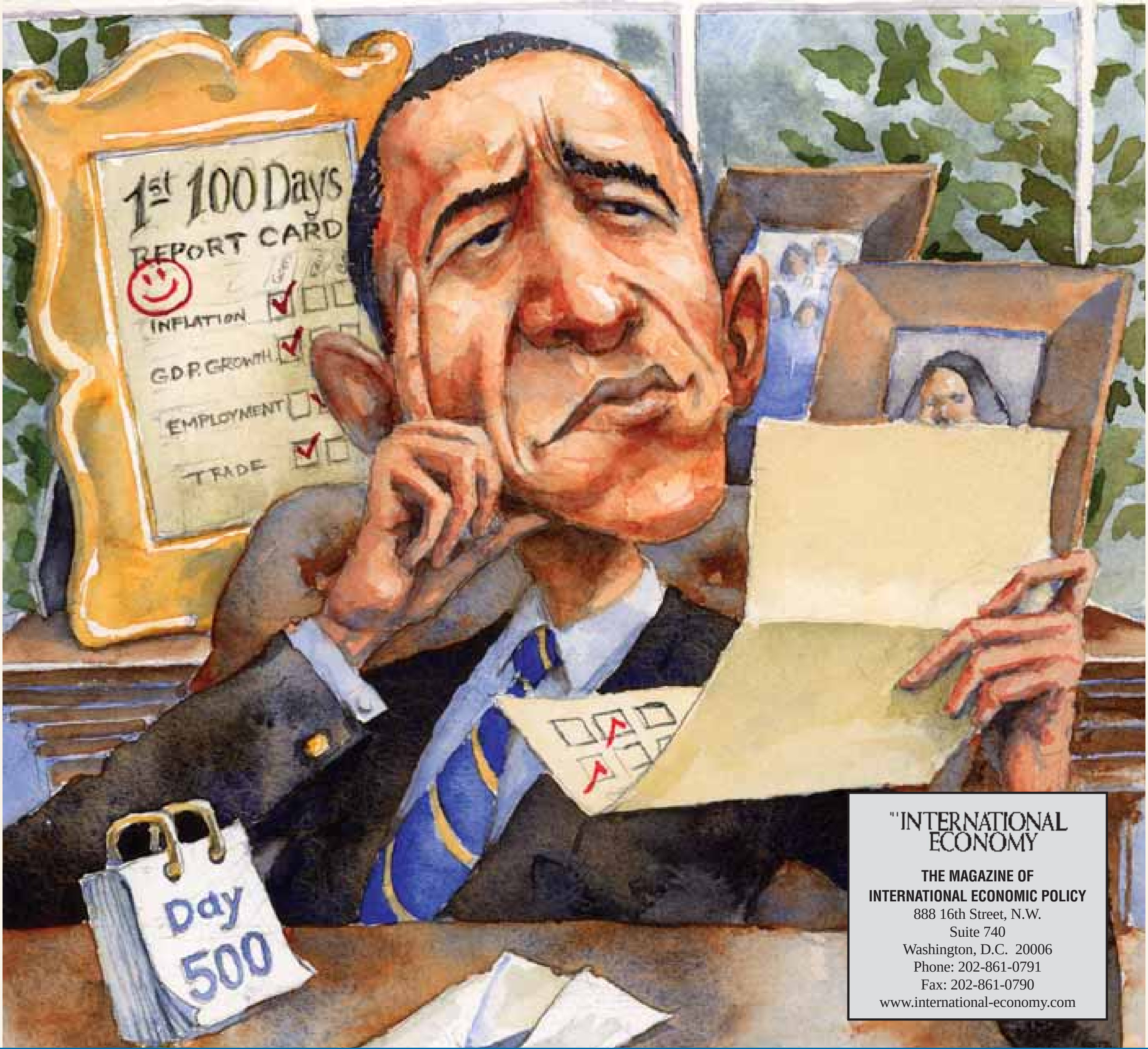
Obama's 500-Day Report Card

Recently, the world gave President Barack Obama high grades for his first 100 days in office. What grades will he likely receive by mid-2010, after 500 days in office?



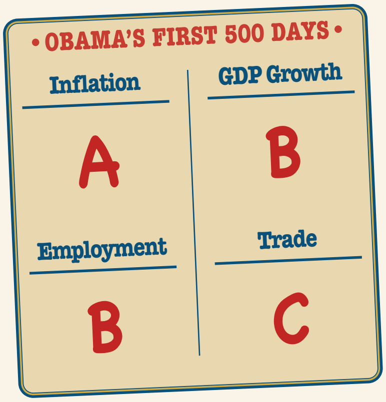
THE INTERNATIONAL ECONOMY

THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY

888 16th Street, N.W.
Suite 740
Washington, D.C. 20006
Phone: 202-861-0791
Fax: 202-861-0790
www.international-economy.com

C. FRED BERGSTEN

Director, Peterson Institute for International Economics



I expect the U.S. economy to be recovering modestly with very stable prices in the middle of 2010, the 500-day mark for Obama. The government and Fed stimulus programs should be having their maximum impact at about that time. Hence, Obama should receive relatively high marks on growth and inflation.

Unemployment is a lagging indicator so it will probably still be rising or at best stabilizing. Obama will escape most of the blame, however, and there will be numerous stories of documented job creation from his stimulus efforts. Hence, a B is likely here, too.

Trade is the most problematic. Obama has adopted a firm policy stand against protectionism both domestically and in the G20 declaration at the London summit in early April. His implementation at home, however, for example on the Buy American provisions of the stimulus bill and subsequent legislation, is not yet convincing. Moreover, he may continue to dither in adopting a positive trade agenda and thus leave a dangerous vacuum into which additional backsliding can easily occur.

I am less sanguine what the report card may show at one thousand days. We could be suffering a double-dip turndown by then if private demand fails to pick up the slack from waning public stimulus. Inflation could be rising as a result of huge budget deficits and renewed increases in world commodity prices. Unemployment will need to be coming down steadily and substantially to garner a good mark at that time. We will clearly need forward movement on trade to contribute to global expansion. The policy challenges will thus remain, and perhaps intensify, even if the encouraging progress that I expect over the next year does in fact take place.

We will clearly need forward movement on trade to contribute to global expansion.

WILLIAM E. BROCK

Former U.S. Trade Representative, and former U.S. Secretary of Labor

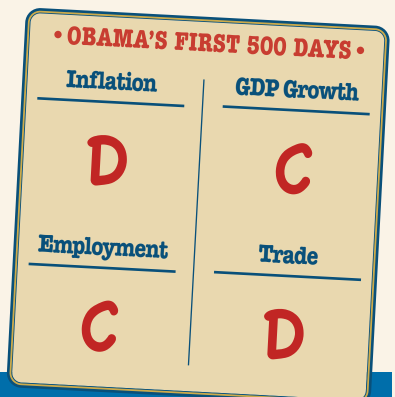
I know of no individual who has the gift of prophecy, and thus I trust the following opinions will be read with considerable caution.

On inflation, I'd give a D. The prospect of a significant increase in inflation is high, in large part due to the massive infusion of governmental stimulus funds, but perhaps equally from the massive but largely underreported Federal Reserve infusions of newly created money. These inflationary pressures may be somewhat ameliorated, due to the fact that the dollar continues as the world's reserve currency. Nonetheless, they will be much in evidence, and very painful, well before the end of 2010.

Obama earns a C for GDP growth. It is not unreasonable to anticipate that this inflation will be accompanied by far higher interest rates, leading to the much-feared "stagflation"—economic stagnation coupled with inflation. Thus I fear that GDP growth will in real terms be negative, or at best slightly positive from the continuing impact of governmental expenditures. I do not believe that the serious psychological impact of the recession will have fully abated, leading to greater rates of savings and lower levels of private consumption for a considerable time, especially among middle- and lower-income families.

His grade for employment is a C. The expectations of modest improvements in employment will create a sense of economic improvement, despite the fact that much of the gains will come from governmental actions. These are clearly not sustainable beyond the next two or at most three years without the prospect of even more serious inflation.

On trade, I'd give Obama a D. Trade, in stark contrast with the past half century, may continue to be a drag on the world economy—and on the United States specifically—as nations struggle to restore capital formation and consumer confidence. These efforts, and global trade specifically, will be hampered by overt as well as covert protectionism.



• OBAMA'S FIRST 500 DAYS •

Inflation	GDP Growth
A	B
Employment	**Trade**
B	B

ALAN S. BLINDER
Department of Economics, Princeton University, and former Vice Chairman, Board of Governors of the Federal Reserve

BENN STEIL
Senior Fellow and Director of International Economics, Council on Foreign Relations

Given the monetary and fiscal adrenaline that will have been pumped into the U.S. economy over the course of 2009, I would expect to see some very modest GDP growth by spring 2010, even as the employment figures remain poor. The big question marks are longer term. With no signs of deficit control on the horizon, Treasury prices and the dollar should all take a beating in the coming year, and inflation will not be far behind. On the trade front, an end to all talk of re-opening NAFTA is the best that can be hoped for. Unfortunately, the economic crisis, which has already gone through several distinct phases since 2007, has a number of phases left to it, and will persist well beyond President Obama's first 500 days.

• OBAMA'S FIRST 500 DAYS •

Inflation	GDP Growth
C	B-
Employment	**Trade**
C	D

RUDOLPH G. PENNER
Institute Fellow, Urban Institute, and Former Director, Congressional Budget Office

I gave the President—and by implication the Federal Reserve—a B for GDP growth and employment because I was an easy grader when I was a professor. By mid-2010 the recession will have passed its trough, partly because of the natural inclination of the economy to heal itself and partly because of expansionary fiscal and monetary policies. The former is likely to have most of its impact after the recovery is underway. The ordinary voter is likely to award a lower grade, because GDP and employment will still be far below previous peaks and the public will have expected more from this activist president.

Fiscal policy has been far looser and with a later impact than was necessary.

Why provide only a B if the economy is well on its way to recovery? Fiscal policy has been far looser and with a later impact than was necessary. The huge deficits, which continue indefinitely, will crowd out private investment and increase our liabilities to foreigners once the recovery matures, thus reducing long-run growth in American incomes. At worst, the flood of debt will cause a disruption in international financial markets that will threaten a double-dip recession.

I provide an A minus for inflation, because it is unlikely that anything bad will happen within 500 days. But if the Fed extracts bank reserves too slowly, price increases will accelerate later, or if they act too fast the marks for employment and growth will fall drastically.

The A minus for trade is more a hope than a promise. But at least Obama is not the protectionist that he seemed to be during the campaign.

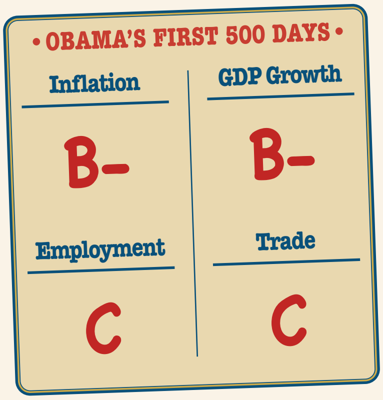
• OBAMA'S FIRST 500 DAYS •

Inflation	GDP Growth
A-	B
Employment	**Trade**
B	A-

ALLEN SINAI

Chief Global Economist and President, Decision Economics, Inc.

A 500-day report card for President Obama's Administration on the economy should reflect economic recovery in the United States and global economies and a passing of the economic and financial crises in place when the Administration began.



By the second quarter of 2010, the U.S. economy should be in recovery, although not robustly so, with real GDP to grow by 2–2.5 percent for the year, overall price inflation probably near 2 percent, the unemployment rate sticky at about 10 percent, and foreign trade revived somewhat after the depressed flows of exports and imports that occurred during 2009.

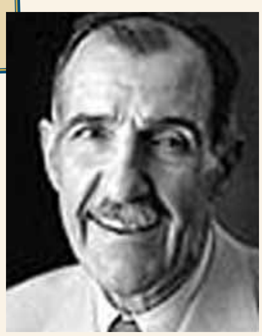
Relief over the end of one of the longest and deepest downturns in the U.S. and global economies since the 1930s should have been reflected in a strong stock market, at least for a time, and certainly will exist on even disappointing dimensions of growth, jobs, price inflation and trade. But by 500 days after President Obama's inauguration, the public will be asking about the quality and sustainability of the recovery, how long and how bad will be the jobs market, what the exit plans are for the extraordinary intervention in the private U.S. economy by the federal government, and whether the U.S. standard of living will have been compromised in a permanent way.

Working out the extraordinary crises that characterized the U.S. economy in 2008–09 will likely linger by 500 days into the Obama Administration, with still disappointing results pretty much across the board.

Growth in real GDP likely will be positive, but weak, reflecting a subdued consumer unable to spend nearly as much as historically because of a sticky high unemployment rate and lack of income, no easy way for financing or funding of spending through strong borrowing and easy credit, still-depressed sentiment, a big shift toward saving and away from consumption, and reliquefication of household balance sheets, now severely deteriorated, in order to return household financial conditions to a strong enough level to support more consumer spending. At 70 percent of real GDP, essentially as consumption goes so goes the economy.

As consumption goes so goes the economy.

More likely, the Obama report card will be much better at 1,000 days rather than at 500 days, as the U.S. economy and global economies slowly and gradually work toward full recovery and sustained expansion.

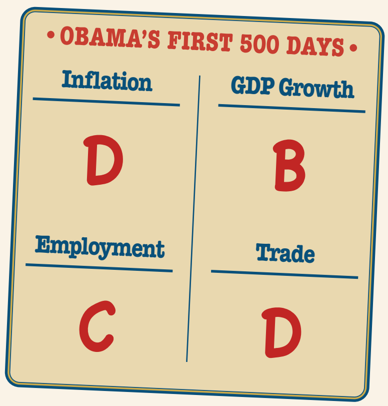


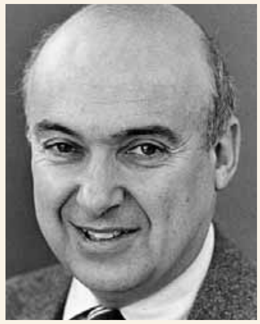
PAUL DEROSA

Principal, Mt. Lucas Management

PAUL BRACKEN

Professor of Management, Yale School of Management





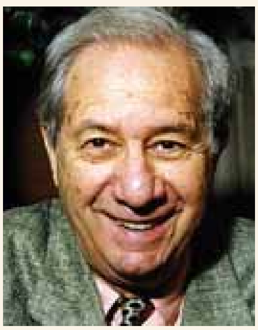
MARSHALL I. GOLDMAN
Senior Scholar, Davis Center for Russian and Eurasian Studies, Harvard University

There are those who relish nothing more than an overwhelming challenge. President Barack Obama is clearly one of them. It may be that he thought that economic conditions when he assumed the presidency could not get any worse and that the public would remember that it was George W. Bush who was responsible for the mess. The trouble is, however, that the public tends to focus on the sitting president and so whoever is in the White House at the time gets the blame or credit. So even if Obama does a good job, the nation's economy even after a year and a half of Obama's presidency is unlikely to have recovered from the 2009–10 recession. Even under the best of circumstances, it will take a while to turn the economy around.

The United States is very much integrated into the world economy and our prosperity in part depends on how others are doing or expect to do.

But if you were to ask us to evaluate Obama's efforts to restore the country's economic health instead of asking for a snapshot of how things are after 500 days, I think the answer will be different. Do I expect he will be doing the right thing for 500 days? In this case, I would give him high marks. I have been very impressed by how ambitious and energetic he has been in trying to reinvigorate the economy and the country. Of course, I am writing this just at the end of the first one hundred days and there is a good chance that he will tire as he continues in office. It would be remarkable if he could continue that initial pace. But I do expect that he will try and that he will be reasonably successful.

Of course, the United States is very much integrated into the world economy and our prosperity in part depends on how others are doing or expect to do, and the problem is that few other countries can be expected to act as vigorously. This will therefore tend to slow the U.S. recovery and thus the public's perception of Obama's efforts. But if judged on the basis of his continuing efforts, I expect the results to be quite positive.



MURRAY WEIDENBAUM
Mallinckrodt Distinguished University Professor, Washington University in St. Louis

Five hundred days from now, President Obama will be wishing that election day for a second term might be taking place right then. At that point in time, most economic variables are likely to be recording positive positions—inflation contained (and deflation behind us), economic growth picking up, and unemployment finally turning down.

Yet it would be premature for the Obama Administration to rest on its laurels. Three years (or 1,100 days) from now, the economic outlook is likely to be far more grim. The longer-term results of the hastily adopted "stimulus" package will begin to be apparent. Inflation will be accelerating, economic growth slowing down, and business investment sagging from a host of assaults by regulatory agencies and other government functionaries.

MICHAEL J. BOSKIN
T.M. Friedman Professor of Economics and Hoover Institution Senior Fellow, Stanford University, and former Chair, President's Council of Economic Advisors

A President's economic policies should be evaluated by the more enduring consequences, which can differ immensely from contemporaneous descriptions that focus on very short-term benefits and costs.

At the 500-day mark, President Reagan was in a deep recession and on the verge of a mid-term election rout. Yet, by backing Fed Chairman Paul Volcker's disinflation, reducing tax rates, and a military buildup, Reagan slowed the slide toward a social welfare state and helped win the Cold War without firing a shot. The early recession and strong rebound helped him win reelection. Yet he could not get enough control of spending to prevent large budget deficits well into a long economic expansion.

Obama will be blamed for the resulting long-run economic stagnation and/or inflation.

At the same point in his term, President George H. W. Bush had a much milder and shorter, but later, recession, and lost re-election. But by cleaning up the third world debt insolvency of money center banks and the savings and loan financial crises, placing effective control on discretionary spending, and promotion of free trade, he helped set the stage for a strong economy in the 1990s.

President Clinton at the 500-day mark was in the process of losing Hillary Care and control of Congress, but thereafter worked with Congressional Republicans to balance the budget and reform welfare. He also bravely finalized NAFTA and the Uruguay Round. Despite the noble goals, Clinton's low-income home ownership expansion policies contributed to the current housing fiasco and his financial regulation looks bad in hindsight.

President Obama inherited an economic and financial crisis and difficult budget situation. Unfortunately, the $787 billion stimulus is an expensive wasted opportunity of social engineering and pork. His budget calls for much higher spending, higher taxes, and an explosion of debt that will crowd out private and state and local investment. And he wants government control over much more of the economy. Barring a major early course correction like Clinton's, Obama will be blamed for the resulting long-run economic stagnation and/or inflation. If he pivots to controlling spending, winding down the bailouts, including withdrawing Fed liquidity in time to forestall inflation, he will earn high marks. If not, the heady applause of the first 100 and 500 days will eventually turn to a sobering condemnation of his policies, perhaps only post-presidency. He has been better than feared on trade, but has yet to ask for fast-track authority or reinvigorate the Doha Round.

GINA DESPRES
Senior Vice President, Capital Research & Management Co.

CHARLES TAYLOR
Senior Advisor, Risk Management Association, and Fellow, Wharton Financial Institutions Center

ROGER KUBARYCH

Chief U.S. Economist, UniCredit Research, and Henry Kaufman Adjunct Senior Fellow for International Economics and Finance, Council on Foreign Relations

By the 500th day of the Obama Administration, the president will "own" the economy. The public will grade it harshly.

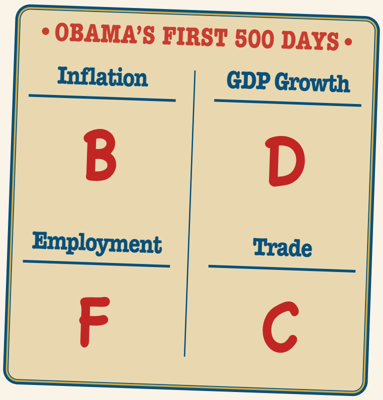
GDP growth: D. The recovery will be puny, not much better than 1.5 percent per year. Consumers will be saving more to offset the implosion of housing and financial wealth. Businesses will be reluctant to invest, and some will be struggling to avoid failure. Home-building won't be evaporating but excess inventories will still clog the market. Commercial real estate will be imperiled by mounting vacancies and continued stringent lending standards. Exporters will be disappointed by the mediocre improvement in major foreign economies. State and local governments will contend with ongoing budget problems. True, the spending side of the Obama fiscal stimulus will pick up. But the private sector will feel the specter of coming tax increases.

Employment: F. The unemployment rate will be peaking, but close to 10 percent. Job openings will be declining, and hiring will be restricted, because businesses do not treat this as a typical business cycle, but rather as a structural change requiring far-reaching adjustments. To the public, it will appear that Obama economics means lasting levels of high unemployment.

Trade: C. The trade deficit will narrow but not by much. The public (and Congress) will grow impatient for other countries to open their markets to U.S. exports.

Inflation: B. Wages will be stagnant. The CPI will be basically flat, but gasoline prices will be rising. Rightly or wrongly, to award an A, the public wants higher wages and steady prices.

Meanwhile, the Obama team will be ruing their failure to act decisively in 2009 to reverse the collapse of household net worth by stopping home foreclosures and by erecting tax incentives to stimulate purchases of equities.



DAVID S. RUDER

Professor of Law Emeritus, Northwestern University School of Law, and former Chairman, U.S. Securities and Exchange Commission

What grades will President Barack Obama likely receive after his first 500 days in office? My assumption is that by that date the steps taken to stabilize the banking system will have been effective, the stimulus effects of increased government spending will have resulted in positive employment trends, GDP will be growing moderately, and the trade deficit will continue to be robust. Given the level of spending initiatives, the Obama Administration will probably be experiencing difficulty in reducing the deficit. The effect of these developments will probably be that inflation will be moderate in May 2010, but that concerns will be expressed by many that inflation will be strong in future years.

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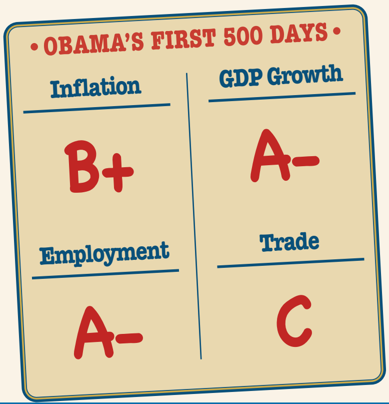


BERNARD CONNOLLY

Managing Director, Connolly Global Macro Advisers

What matters most is not what output and inflation will be in a year's time. What matters is whether the United States can be rescued from intertemporal misallocation. To get an A, Obama needs to engineer massive dollar devaluation or introduce much more pro-business policies. Unless one or the other is done, allowing the U.S. economy to return to functioning with "normal" real long rates of interest, it will become very difficult to maintain a capitalist, free-market economy. It will face either "liquidation" and dramatically high unemployment, or a need to keep on providing more and more incentives to bring spending forward from the future—whether by ever-lower real long rates (ultimately implying ever-faster inflation) or through ever-bigger government deficits (ultimately implying default).

Massive dollar depreciation could get the country out of this trap. But it is unlikely to be feasible, in part because the rest of the world would strive to prevent it, and in part because it would tend to shift the distribution of income within the United States from labor to capital even further, something the government might strive to prevent (or to offset with controls on prices and profits). The Administration's first few months have done little to suggest an ability or willingness to increase the rate of return on capital. Instead, by creating doubts in investors' minds about the applicability of normal legal principles, policies may have increased the required risk premium. This road can lead to distortions that might make a drift towards a centrally planned economy look the least unattractive option.

To get an A, Obama needs to engineer massive dollar devaluation or introduce much more pro-business policies.

But if Obama should turn out not to get high marks, ultimate responsibility will lie with former Fed Chairman Alan Greenspan—who unwittingly prepared the ground for the destruction of the capitalism he rightly cherished—and with those architects and promoters of European monetary union who explicitly aimed at damaging "Anglo-Saxon" capitalism.

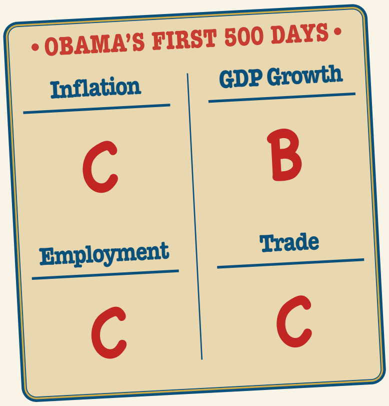
RICHARD C. KOO

Chief Economist, Nomura Research Institute

People who act preemptively to avoid crisis never become heroes. Instead, they are bashed for spending resources to avoid a crisis that never materialized. That was the case for post-bubble Japan, which managed to keep its GDP from falling below the peak of the bubble for the last eighteen years despite an 87 percent decline in commercial real estate values nationwide, resulting in the loss of national wealth equivalent to three years of its GDP just on shares and real estate. That was three times the loss incurred by the United States during the Great Depression, which resulted in 46 percent decline in its GDP.

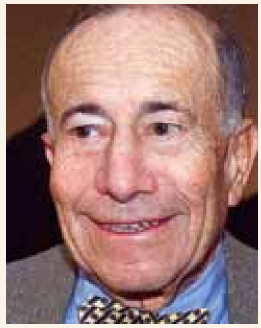
The collapse in asset prices also forced Japan's private sector into debt minimization mode, even with zero interest rates, in order to repair their battered balance sheets. In spite of this colossal headwind, Japan kept its GDP from falling by prompt government fiscal action to put the excess savings in the private sector back into the economy's income stream. But instead of receiving praise, Japan was bashed by those who argued that Japan's growth rates never returned to the pre-1990 pace, a ludicrous goal for a country facing an 87 percent decline in asset values.

President Obama will face the same criticism if his fiscal actions succeed in neutralizing the economic weakness coming from households and financial institutions deleveraging in response to the drop in U.S. house prices. Such criticisms will make it difficult for him to maintain necessary fiscal stimulus until private-sector balance sheets are repaired. In order to avoid that outcome, he must explain to the people that the United States is faced with a very rare type of recession caused by private sector minimizing debt instead of maximizing profits and that government fiscal action is needed to keep the economy from imploding. With the U.S. private sector deleveraging, the money multiplier is negative at margin. This means inflation will not be a problem unless Fed Chairman Ben Bernanke recklessly expands the Fed's balance sheet to the point where both domestic and foreign investors lose confidence in the dollar.



CHARLES WOLF

Senior Economic Adviser and Distinguished Corporate Chair in International Economics, and Professor, Pardee Rand Graduate School, RAND



By spring of 2010, the huge boost in liquidity that the Administration's hyperactive monetary and fiscal policies have injected is likely to generate acute (and warranted) worries about impending inflation (grade: C). On other side of the ledger, the same push-all policy buttons, plus emergent "animal spirits" and bottom-fishing asset investment, is likely to have turned negative GDP growth around to positive low single digits (grade: B). Employment is likely to lag in accord with the usual cyclical pattern following recessions, and also because much of the so-called stimulus package consists of agenda items unrelated to jobs—unemployment will probably be about 8.5–9 percent (grade: C). Trade is also likely to have improved only a bit, with perhaps a free trade agreement with Korea or Colombia approved, but not both (grade: C).

By spring of 2010, the huge boost in liquidity that the Administration's hyperactive monetary and fiscal policies have injected is likely to generate acute worries about impending inflation.

ROBERT JOHNSON

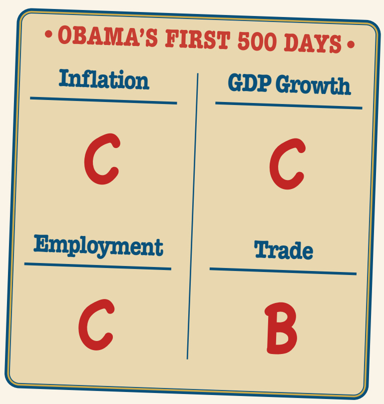
Former Managing Director, Soros Funds Management, and former Chief Economist, Senate Banking Committee

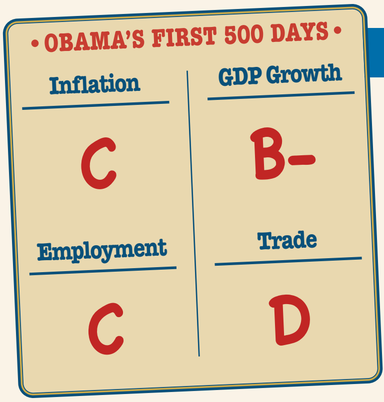
Though the stimulus program will be upshifting in 2010, the forbearance policy with the large Wall Street financial institutions will leave us weighed down on growth and employment. Inflation will not yet be present, but the size of the Fed balance sheet, a result of so many off-budget and back-door bailout coping mechanisms, will put the fear of impending inflation on the radar of every fixed-income investor. It will not be existing inflation but the fear of impending inflation that tortures the imagination. Trade will not yet be the core of the problem, but U.S. stimulus and European and Asian (*ex* Chinese) reluctance is likely to see the current account widening.

The Administration will be amidst the tension of stagnant growth and fear of the debt/GDP ratio rising. The President was dealt a bad hand coming into office. Maybe the grades are unfair. But they are what they are.

All of these tradeoffs would have been better managed with a vigorous financial sector restructuring right out of the block when it was called "Bush's fault." (In reality, however, financial calamity is a bipartisan effort.) With unsecured bank debt restructuring replacing the taxpayer as the provider of filler to badly wounded balance sheets in the too-big-to-fail arena, and equity in the hands of the Treasury, to be resold in the years ahead, the fiscal accounts would have been in much better shape to rebuild the public infrastructure of the nation—an infrastructure that the American Society of Civil Engineers suggests requires $1.6 trillion just to get back to working order.

Instead, we have fortified the too-big-to-fail behemoths, sought to preserve the existing distribution of wealth, instituted a tax weighing on future growth, and left our infrastructure in tatters. The Tim Geithner/Larry Summers policies of forbearance and caution are behind this report card. They were too cautious. Faint heart never won fair lady!





WILLIAM M. CALDWELL IV
Chairman and CEO, Advanced Cell Technology, Inc.

Some major contradictions have appeared in the economic data following Obama's first one hundred days in office. The transition from "acute to a chronic stage of economic decline" has in part fueled the recent U.S. stock market rally as risk investment returns. Add an apparent increased appetite for risk in the broader financial markets coupled with positive economic data emanating from China, and you have the linchpins for a positive appraisal of Obama's first one hundred days.

The Obama Administration still calls the continuing financial crisis an inherited Bush problem. He publicly jawbones that the problem will persist into 2010 while his operatives point to "green shoots" as signs of economic recovery. The financial markets are forecasting inflation on the horizon, a post-recovery concern. Yet the April year-over-year CPI index change was at a fifty-year low. Year-over-year core inflation was 1.8 percent. With unemployment expected to increase into 2010 and the American consumer's newfound penchant for increased savings, along with the haircut most received to their investment portfolios, the prospects for disinflation would appear more of a concern.

China's positive economic news is a result of a massive stimulus package provided by a government that finds economic slowdown unacceptable. Additionally, the Chinese government has provided private sector credit focusing on areas with large export potential. With manufacturing utilization at record lows in the United States, increased imports from China without increases in demand most likely will fuel disinflation trends in the United States.

Most economists weren't surprised that the stress tests demonstrated that the capital requirements of banks tested were within the fund amounts available via TARP. International Monetary Fund forecasts earlier this year indicate a potential $1.0 trillion of impaired assets left for the major money center banks to recognize. Financial Accounting Standards Board ruling changes relieving mark-to-market accounting allow for a possible deferment of this equity "hit." Before real economic growth can return, banks must again become active lenders. Five hundred days may still not be enough time to accurately gage the success of Obama's policies on the U.S. economy.

PAULA STERN
Chairwoman, The Stern Group, Inc., and former Chairwoman, U.S. International Trade Commission

The American economy will be growing slowly when President Obama has been in office for 500 days. Unemployment will be around 10 percent in the summer of 2010. Residential and commercial real estate will still be in the doldrums. Imports of energy and consumer goods will still be dwarfing job-creating domestic investment.

The economic question that will determine the President's grades at day 500 is whether the government funds he and the Congress are pouring into financial institutions and the investments he proposes in energy, public works, and education will have begun to lift and transform the economy.

Investment financed by the government will need to be the engine of growth next year because consumer spending that was based on supersized credit card debt and home loans will remain weak. Moreover, government borrowers are more creditworthy than private borrowers under the conditions that are likely to prevail next summer.

The problem the President will be facing is that Americans do not like government spending and investment, even when it is desperately needed. Our huge trade deficit, for example, is largely composed of consumer goods from Asia and energy, but the public is skeptical of a shift toward spending on public infrastructure that would alter the equation and create more jobs in America.

The big question is whether government spending transforms the economy.

That is why power grids, roads, parks, and public transportation in Europe are dramatically more modern and better maintained than they are here. More spending on public facilities and less on imported cars, clothes, and household bric-a-brac would reduce our trade deficit and increase employment here, but the President's grades will be good only if the public begins to believe this.