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**US economic recovery to be retarded by headwinds, leading American economist Dr Martin Feldstein tells ACFS audiences.**

In addresses this week to the Australian Centre for Financial Studies in Melbourne and Sydney, renowned Harvard academic Dr Martin Feldstein said that it was unlikely that the United States would achieve growth much above 2% in 2011. Recent consumption-led growth was unsustainable due to pent up demand and a run down in savings.

Moreover, Dr Feldstein identified four headwinds to US economic recovery in 2011.

1. The withdrawal of fiscal stimulus. As the stimulus had been "badly designed" and poorly targeted the detraction from growth would be less than feared. However, the individual states are also cutting back spending and raising taxes.

2. Rising oil prices. A \$US30 per barrel price increase could take  $\frac{3}{4}$ % off GDP.

3. House prices across are falling again. 30% of all homes with mortgages are underwater with negative equity. More people are likely to walk away from their homes.

4. A major period of refinancing of non-prime regional commercial real estate is likely to require significant write-downs and may stress the undercapitalised community bank sector.

A former chief economic advisor to President Ronald Reagan and a member of President Obama's Economic Recovery Advisory Board, Dr Feldstein identified a major medium term risk as rising real interest rates. At 1% US real rates may be unsustainably low and could rise as high as 3% given the rising public debt and the need for continuing offshore funding of US deficits.

Dr Feldstein stated that, contrary to popular wisdom, the US could not expect to inflate its way out of its problem as most of its debt is short term; higher inflation would very quickly be reflected in higher market interest rates. Moreover, the issue for US with China may not be China's trade surplus. Rather a greater issue within five years may be when wages and consumer spending rise, and savings rates fall, that China could move into deficit and no longer be a net buyer of US government securities.

Dr Feldstein said there was some reason to be optimistic about US public debt. He detected a growing bipartisan resolve in Washington to reduce subsidies and strip out costs from

health care and social security. However, further quantitative easing ("QE3") was unlikely except in the case of "a massive downturn".

In conclusion, Dr Feldstein noted that in the US "the failure of supervisors to do their jobs" was "a key reason" for the financial crisis but he was encouraged by reforms concentrating US bank supervision with the Federal Reserve.

ACFS Director Prof Deborah Ralston stated that "we are delighted to welcome a visitor of Dr Feldstein's calibre. As an outstanding academic and one of the world's 10 most influential economists, he brings keen insight to public debate." Part of the ACFS brief is to elevate the contribution of finance academics to public policy in Australia.

**About the Speaker:**

He is currently the George F. Baker Professor of Economics at Harvard University, and the president emeritus of the National Bureau of Economic Research (NBER). He served as President and Chief Executive Officer of the NBER from 1978 through 2008. From 1982 to 1984, Dr Feldstein served as chairman of the **Council of Economic Advisers** and as chief economic advisor to President Ronald Reagan. He has also been a member of the Washington-based financial advisory body the **Group of Thirty** since 2003.

He is among the 10 most influential economists in the world according to IDEAS/RePEc. He is the author of more than 300 research articles in economics and is known primarily for his work on macroeconomics and public finance. He has pioneered much of the research on the working mechanism and sustainability of **public pension systems**.

"On February 6, 2009, Dr Feldstein was announced as one of U.S. President Obama's advisors on the **President's Economic Recovery Advisory Board**". "A well-known figure on the **Harvard** campus, Dr Feldstein taught the introductory economics class "Social Analysis 10: Principles of Economics" (commonly referred to as "Ec 10" by Harvard students) for twenty years .... Ec 10 was routinely the largest class at Harvard." (Source - *Wikipedia*)

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The Australian Centre for Financial Studies (ACFS) facilitates industry-relevant and rigorous research and consulting, thought leadership and independent commentary. Drawing on expertise from academia, industry and government, the Centre promotes excellence in financial services. The Centre specialises in leading edge finance and investment research, aiming to boost the global credentials of Australia's finance industry; bridging the gap between research and industry and supporting Australia and Melbourne as an international centre for finance practice, research and education.

The Centre provides access to and links between academics, finance practitioners and government and draws on expertise and experience from across these groups, to facilitate knowledge creation and transfer. ACFS (previously known as the Melbourne Centre for Financial Studies) is a not-for-profit consortium of Monash University, the University of Melbourne, RMIT University and Finsia having commenced in 2005 with seed funding from the Victorian Government. Across the consortium partners ACFS has links with over 100 finance academics and over 200 postgraduate students engaged in finance research.

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