

Lex

by FT.com FT Administrator 

Do you have any comments on a particular Lex note? Share your thoughts on our expanded Lex coverage. The most thought-provoking online contributions will be attached to the relevant Lex note on the subject. Please supply your full name and location.

Steroidal growth assumptions no 'new dawn' for markets   09 Mar 2009 05:34 PM
by Alan Rohrbach

As it has not been addressed elsewhere, I must say that it was more than a bit disturbing to see the estimable Roger Altman explain the reasons it is wholly unrealistic to expect the US economy to expand at rates assumed by President Obama's budget proposal, yet finish with a partisan assertion that a generation of change may all occur in as little as one year ("An epic battle looms over Obama's big push", March 4.)

His expectation of weakened public support if this weighs too heavily on a fragile economy may prove the most prescient of his observations. Other than the major expansion of government's role, any benefits are seriously in doubt if future growth assumptions fail to materialize.

And that may be what is most disturbing for markets. There is little doubt on the administration's incentive to hope US GDP growth rebounds sharply to 3.2 percent next year, and carries on at 4.0% in 2011-2013. The only way to justify the major tax hikes on the 'rich' from the end of 2010 is assuming that occurs into a strong economy.

As Mr. Altman noted, the problem is that any reasonable current analysis belies the likelihood of sustained strong growth returning so quickly. In fact, that sort of growth projection gets us back to specious calculations of average US GDP growth that foster inflated expectations. This is due to inclusion of the steroidal growth periods during the Dot.Com and combined Credit and Housing Bubbles that are now broadly recognized as unsustainable; yet which the budget proposal presumes will recur.

Ergo, if the Obama administration (along with other sensible observers) both expect and welcome a period of greater frugality by the American people, it is specious to coincidentally project a return to unsustainable growth rates.

That disconnect seems in large measure the problem for the markets. This is surely much less 'new dawn' than another version of 'more of the same' from Washington DC.

Rohr International, Inc.
info@rohrintl.com