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Alice Rivlin: Economists are too optimistic

Washington Business Journal - by [Mara Lee](#) Staff Reporter

Alice Rivlin has been an economist in very high places. She was **Federal Reserve Board** vice chairwoman, head of the Office of Management and Budget and founded the **Congressional Budget Office**.

Rivlin told an audience at a Thursday luncheon, hosted by the **Commercial Real Estate Women**, that it is obvious the economy is in a serious recession, and took a stab at answering the questions on everyone's minds: "How deep? How long? When will we get out of this?"

"The only honest answer is," she said: "We don't know."

Still, Rivlin said she thought forecasters who work for giant banks and companies, who have coalesced around the idea of a recovery sometime in the second half of 2009, are too optimistic.

"The professional forecasters are actually not all that gloomy," she said. Her former agency, the Congressional Budget Office, forecasts a slow recovery beginning late in 2009, with 1.5 percent gross domestic product growth in 2010, and an unemployment rate that would rise above 9 percent in 2010.

Rivlin is skeptical that even that forecast is gloomy enough.

All the models forecasters use look at how the recessions and recoveries in 1975, 1980-81, 1991, 2001 unfolded.

"But that's not very relevant," she said. "In none of them was the basic problem a meltdown of the financial sector."

She predicted this will be the most severe recession in 64 years. "It could go on for several years," she said.

Banks, companies and households took on too much debt, she said. We cannot return to the bubble economy.

"People will be shocked into saving more -- they already have been. If your business is retail, then that isn't very good news," she said. "The de-leveraging has begun, and is taking a lot of the economy with it."

Rivlin also talked about what the future should hold for **Fannie Mae** and **Freddie Mac**, which invest in the secondary market for residential mortgages. Once major private companies in the region, they were re-nationalized in 2008.

"Fannie and Freddie were put in a very, very difficult, conflicted position," Rivlin said. The dual mission -- to make a profit and help low-income people find affordable housing -- "was an untenable situation."

Rivlin said Fannie and Freddie will need to be government-run for a long time -- how long, she doesn't know -- "but when things are back to normal, spin off their portfolios in bits and pieces."



Alice Rivlin

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