

The G-2 — Where the Real Action Is

GEORGE Soros says that unless the world's industrialized nations agree on a radical restructuring of the financial system when they meet in London on Thursday, we face a deep, worldwide recession. He's wrong.

The G-20 leaders will meet for 4½ hours, talk, dine and issue a communique that has already been written.

Most nations will refuse President Obama's request to match his stimulus package. The British would like to, but Prime Minister Gordon Brown has spent so much on his welfare state that his coffers are empty. German Chancellor Angela Merkel knows that in the 1930s consumers needed wheelbarrows full of paper money to buy a loaf of bread; enter Adolf Hitler. So no risking inflation with a stimulus package for her Germany. And France's Nicolas Sarkozy intends to use protectionist measures to mitigate his country's decline, never mind that such measures deepened and prolonged the Great Depression.

Which is a clue as to how seriously you should take this meeting. The G-20 last met in Washington this past September and solemnly promised to eschew protec-

tionism. Promises, promises. A new World Bank report says that 17 of the 20 nations (us included) almost immediately adopted 47 protectionist measures.

The assembled leaders will again promise to avoid protectionism, give some help to developing countries by increasing contributions to the International Monetary Fund and have some words about the need for financial regulators in G-20 countries to cooperate. But they won't give Obama much except wishy-washy language about the need for all countries to contribute to economic recovery. Obama, meanwhile, will reject Franco-German calls for heavy-handed regulation of the financial sector. Then it's on to smiling photo-ops. The real action is off-stage.

Bob Zoellick — who inked many trade pacts as George W. Bush's negotiator and now heads the World Bank — tells us to look to the G-2: America and China.

China is sitting on more than \$1 trillion of our IOUs, which it bought with the dollars it received when we swept all those sneakers, electronic goods and



IRWIN M. STELZER

other stuff off store shelves. It's worried that Obama will have to finance his huge deficits by dumping still more IOUs on the market, and that

Fed Chairman Ben Bernanke will reduce the value of their dollar hoard when he keeps his promise to print billions more.

(Bernanke, remember, earned the nickname "Helicopter Ben" when he said that the way to get out of a recession is to drop dollars from a helicopter.)

The Chinese are so worried that they're asking the G-20 to consider replacing the dollar as the world's reserve currency with a quasi-currency managed by the IMF. When our hapless Treasury secretary, Tim Geithner, told the Council on Foreign Relations that this is an idea worth considering, the dollar tanked. It took a firm "never" from President Obama to offset the damage.

What's really going on, says Zoellick, is the beginning of a deal between China and America to bring the world system back into balance.

Note that China has already followed Obama in putting together the sort of

stimulus package the Europeans are rejecting.

China has to spend more at home so that its consumers can buy more of our goods, and we have to save and invest more so that we don't send so many dollars to China. Because when China uses those dollars to buy our government's IOUs, they drive down interest rates and encourage the sort of debt-fueled borrowing that has brought so many of our banks and consumers to ruin.

Don't worry about the details. The main point is that, if the world economy is to recover, we need China, and China needs us. And China won't play unless it is given the recognition in international institutions to which it feels its position as an emerging superpower entitles it.

As you read this, tens of thousands of anarchists, green extremists and anti-war types continue to descend on the G-20 meeting site, our embassy and other targets in London. My guess is that the G-20 meetings that are in our future will be arranged so quietly that the demonstrators won't even know they're going on.

Irwin Stelzer is director of economic-policy studies at the Hudson Institute.

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