



Suite 502 • 1150 17<sup>th</sup> Street NW • Washington, DC 20036

Telephone (202) 777-3000 • Facsimile: (202) 777-3010

## ECONOMIC NEWS UPDATE

Irwin M Stelzer

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# **The G-20 Did No Harm to What Just Might Be An Emerging Recovery**

If medical practice is the model for meetings of the world's richest countries -- first, do no harm -- British Prime Minister Gordon Brown might be right to call the recently concluded G-20 meeting a success. If you believe that promises by the G-20 governments to "do whatever it takes" to stimulate their economies are worth more than their broken promises to eschew protectionism, you might permit yourself a cheer. And if you think that the International Monetary Fund, with its mixed record of bailouts, should get more money, you might applaud the decision to hand it billions more to scatter

among the world's troubled countries.

But do one thing: view the numbers in the communiqué with more than a little suspicion. For one thing, they come from Gordon Brown, a man Chris Giles, writing in the Financial Times, whose "reputation for numerical inflation ... precedes him." Remember the \$5 trillion in new stimulus? Well, it turns out that the number is so suspect that UK Treasury officials are trying to source it to the International Monetary Fund. There is no new money: the \$5 trillion is merely the increase in government borrowing by G-20 countries between 2008 and 2010,

compared with 2007. And remember the \$1.1 trillion of “support to restore credit, growth and jobs”? “Sheepish” officials in Britain admitted that China, America and Saudi Arabia merely promised to consider contributing; nothing like \$1.1 trillion is in hand. There’s more, but you get the idea. There is pretty close to no there, there.

President Obama leaves Europe without having gotten two things he came for. The G-20 nations refused to promise to spend 2% of their GDPs in support of his economic stimulus, and the NATO nations refused to increase significantly the number of fighting men and women they will commit to Afghanistan.

All of this was predicted: the President’s men are trying to spin the results of these meetings as Presidential triumphs. The G-20 did agree that some day, if their economies deteriorate further, they might then consider the stimulus that Angela Merkel and Nicolas Sarkozy have said would be ruinous. But Eliza Doolittle had it right, “Words! Words! Words!... Make me no undying vow. Show me now!” The G-20 didn’t. And NATO members did agree to some logistic help -- trainers, administrators and the like. But no soldiers.

Nevertheless Obama can claim that his star-power is

undimmed in Europe, and that his off-stage diplomatic forays mark the dawn of a new era in America’s relations with key European and Asian nations. The President did go some way toward repairing relations with Gordon Brown, praising his leadership in setting up the conference and even using the magic words, “special relationship”, although Obama believes it unites the US and “England”, rather than the UK. And he is certain that the Queen will enjoy his gift, a new (and second, it is said) iPod, loaded with, among other things, the music from “Hair”.

Obama then sought to press the “reset” button in U.S.-Russian relations in a private meeting with Russian President Dimitriy Medvedev. So intent is our President on heaping blame on George W. Bush -- one observer said that he had never heard an American president attack his own country at every opportunity -- that he apologized for America’s part in allowing our relations with Russia to “drift”. Never mind that Russia had cut off natural gas supplies to our European allies, invaded Georgia, threatened Poland by placing missiles on its border, and bribed Kyrgyzstan to deprive us of our last military airbase in central Asia, complicating the task of supplying NATO troops. Seems

more like revanchism than “drift” to this observer.

Not to worry. All will be sorted out when the President visits Moscow this summer, and exposes Vladimir Putin and the Russian people to his star power - and his lack of enthusiasm for the missile shield needed to protect Europe from Iran’s developing nuclear weapons.

Obama then had his first meeting with his Chinese counterpart, Hu Jintao. Although this was billed as merely a get-acquainted meeting, Obama immediately agreed to two Chinese requests: that he visit Beijing, and that China be given a larger voice at the International Monetary Fund and other institutions. The small matters of human rights, North Korea’s missile launch, and China’s recent proposal to have the dollar replaced as the world’s reserve currency did not come up. The presidency of the World Bank, traditionally reserved for an American did, and the communiqué suggests that Obama gave up that privilege, no quid pro quo required.

Both the Chinese and the Americans know that they have to do a deal. China has to stimulate domestic demand so as to be less reliant on exports, and America has to increase domestic savings so as to be less dependent on

China’s purchases of US Treasury bonds and notes. Obama’s problem is that the huge deficits called for in the budget now working its way through congress will require the printing of lots of brand new dollars, depreciating the value of the trillion or so American IOUs locked away in China’s vaults.

Last week China took its call for the development of alternatives to the dollar as a reserve currency one step further: it announced a series of deals to accept payment in a variety of other currencies. Obama has only one card to play in the upcoming negotiations: protectionist measures that would make it more difficult for Chinese markets to sell their goods in America. Neither member of the G-2 wants to see such a deterioration in economic relations. Let’s hope Bob Zoellick, President of the World Bank, is right to predict that a long process of recognition of mutual interests is now underway between the G-2.

While the heads of state took their televised bows, the real world of markets was signaling a possible pick-up in economic activity -- what Americans, borrowing from Britain, now call “green shoots”.

Factory orders rose 1.8% in March, the first increase in seven months, and all new orders jumped 8%. Car makers, headed

towards some form of bankruptcy if observers are reading Obama's hints correctly, report that although sales dropped in March, they remained well above February's level (23% up in the case of GM). More important, demand was way up during the last week in March, partly in response to "incentives" -- the polite term for price concessions -- that averaged over \$3,000 per vehicle.

The troubled housing market also flashed mixed signals, and mixed signals are a very considerable improvement over uniformly gloomy ones. Sales of existing homes are showing some strength, which may or may not portend an improving trend. Applications for mortgages are up, many of them to refinance existing mortgages. The index of pending sales -- deals for which contracts have been signed but not completed -- rose by 2.1% in February, perhaps in response to falling home prices that, combined with low, 4.6% rates on 30-year mortgages, have made homes more affordable to more people.

No. The recession is not over, even though the stock market seems to think it might be. The job market remains weak. Some five million jobs have been lost since the recession started, 663,000 jobs disappearing in March alone. The unemployment rate has risen to 8.5%, and may

be headed higher. But the gloom is no longer unremitting.

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