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Unless Two Imbalances Can Be Fixed, Two New Crises Will Follow This One

- By IRWIN STELZER

Even the least among you can, well, cause a mess, we have learned as Greece's problems roll out around the world. First it was the euro zone that found Greece's problems couldn't be confined to that country's tiny economy. Then it was the entire European Union that caught the disease, as the banks in non-euro-zone countries found themselves holding a lot of sovereign debt that had once seemed risk-free. Even Hungary, which has been working with the IMF since 2008 and is "some 18 months ahead of Greece" in getting its house in order, according to Goldman Sachs analyst Magdalena Polan, finds the cost of insuring its debt rising, and its currency falling, as rumors of default are given credence by nervous markets.

Reuters

China's Vice Premier Wang Qishan, left, and Timothy Geithner need balance.

America was next: so exposed are its banks to the problems created by Greece, Spain and other countries struggling to bring spending down to sustainable levels, so spooked are they by the prospect of Lehman Brothers Mark II, that President Barack Obama had to take time off denouncing BP to ring Spain's prime minister José Maria Zapatero and urge him to do what Mr. Obama has failed to do in America: reduce the deficit.

All of which might at least have the virtue of forcing policymakers to follow the advice of Rahm Emanuel, President Obama's chief of staff. Mr. Emanuel famously said "You never want a serious crisis to go to waste." But to waste it will go. The threat to continued economic recovery created by a badly skewed world-trading system won't be resolved when the G-20 summiteers convene in Toronto later this month, laying the ground for two new crises. China won't float its currency, and Germany won't stimulate domestic demand.

So long as America keeps shipping billions of dollars to China to pay for sneakers, T-shirts and (soon) cars, China will use those dollars to buy Treasury IOUs, keeping interest rates low and encouraging asset bubbles in America— bubbles, we now know, that, when pricked, burst with considerable force on economies around the world.

We know, too, that so long as Germany lends money to Greece and its other EU partners to pay for Mercedes cars and other German manufactured goods, it will be diluting incentives in countries running persistent trade deficits to become more competitive.

"Imbalance" is the word, and it creates multiple threats to the stability of the world economy. There is little doubt that these "imbalances" were among the topics discussed at the meeting of G-20 finance ministers in Busan, Korea, concluded this past weekend. And will be among the topics discussed at the G-20 summit in Toronto, once the ritual banker-bashing is concluded, probably at the private break-away meetings that are always the most important part of these gatherings—more important even than the photo-ops that permit the world's leaders to show solidarity by posing for a group photo, often in the dress of the host country.

It seems that almost every country intends to power its way out of recession by exporting more. Mr. Obama has promised to double U.S. exports in the next five years; Britain is hoping to revive its economy by "making things" and exporting them; the troubled countries of southern Europe are being urged to undertake structural reforms to become more competitive exporters; and the German economy continues to outperform other euro-zone countries in part because a falling euro is driving an increase in exports.

In a period of high unemployment, imports are seen as stealing domestic jobs, especially by politicians more concerned about the next election than the next decade.

The solution, both in the case of the imbalance between China and the U.S., and Germany and the rest of euroland, is for both exporting countries to stimulate demand at home so that they are less reliant on exports to create jobs, and expand markets for goods made in the US and in euroland countries.

Not an easy thing. China has to keep its export industries creating jobs for the millions who are moving from rural areas to its cities, or risk social unrest. Germany would have to adopt policies to discourage saving and encourage spending—a huge cultural change that successive governments have been unwilling to pursue. Which is why U.S. Treasury Secretary Tim Geithner's call in Busan on Saturday for "stronger domestic demand growth" in surplus countries did not meet with an enthusiastic reception in Beijing and Berlin.

Neither China nor Germany seems prepared to adopt these policies. One new crisis will be created as euroland members, unable to devalue to become more competitive with Germany, will retrench, aborting the area's nascent recovery. The other is rising protectionism as America's Democratic politicians, unable to persuade China to let its yuan rise, demand the erection of barriers to the flow of imports.

A crisis wasted, and two new ones created.

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