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Calling for G-20 Global Action for Economic Recovery: Obama Touches All the Bases but Fails to Score

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President Obama's March 24 call for "bold, comprehensive, and coordinated action" by the G-20 touched all the bases of common concern and in doing so revealed the President's basic confusion about the role of government in the economy.

The President cannot decide whether he wants growth or stability, calling simultaneously for both. Wise policy requires the establishment of a balance between the two. The President fails to acknowledge the need for balance, identifying both growth and stability as absolute values. In his confusion, he gives no indication of what he will actually do in the real world of political and economic trade-offs. This uncertainty robs the economy and individuals of the most precious commodity government could provide: the confidence to make plans, investments, and purchases.

Trying to Lead, but Where? In an op-ed published simultaneously in 30 papers around the world, President Obama has called for collective efforts to address the "economic peril found in all corners of the globe."[1] The United States, according to the President, is "ready to lead." After reading the President's statement, one might well ask: "Lead where?"

The President has called on his G-20 counterparts to "jump-start recovery" but also to increase "engagement to prevent a crisis like this from ever happening again."[2] He wants to "lift the American economy out of crisis and reform this nation's regulatory structure." He would "forge a secure recovery" while ensuring that "future crises can be averted." He wants to "restore credit" yet "stabilize America's financial system."

This last quote gets at the crux of the problem with the President's entreaties. By all accounts it is not instability that threatens America's system but rather an overabundance of stability, with banks, though possessed of adequate capital, unwilling to lend and investors, though sitting on mounds of cash, unwilling to invest. The last thing America needs are new regulations that would further slow growth in the name of stability.

High levels of growth can, of course, involve high levels of risk. You can eliminate the risk and increase stability, but the cost will be lower levels of growth. *Growth* and *stability* are not synonyms. Growth requires change; high levels of growth can involve disruptive change. The essence of leadership is finding the right balance between growth and stability. The President, instead, implies that you can have the full measure of both.

The President's confusion, ultimately, becomes that of the American public. For example, he talks about the need to "restore the credit that businesses

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and consumers depend upon." Two paragraphs later he is railing against "spending beyond our means." Which is it: more credit or less?

In the end, the President reveals a few ideas about the results Americans might expect from the G-20 meeting. He endorses a "collective commitment to encourage open trade and investment, while resisting the protectionism that would deepen this crisis." Any commitment to open trade and investment is welcome, but for those used to parsing sentences, that *the* before protectionism is potentially troubling, implying that there might be some protectionism that would not—at least in the President's mind—deepen the crisis.

Real Regulation or Rhetoric? The President also calls for a wide range of regulatory measures, including "a strong framework of capital requirements," a "crackdown on offshore tax havens and money laundering," "rigorous transparency and accountability," and an end to "out-of-control compensation." It is not a surprising list, and it will be problematic or not depending on what is actually done to implement it. Capital requirements can be raised or extended at the cost of reducing the potential supply of credit in the economy. It is a question of balance.

It is not clear what the President means by "offshore tax havens." If he is talking about eliminating jurisdictions that cater to illicit transactions and encourage tax evasion, that is a worthwhile endeavor. But if he is going to join the long-standing campaign of some high-tax European countries to sanction other countries whose only "crime" is to operate with lower tax rates, then that will hurt worldwide economic growth and stifle investment.

Perhaps most pregnant with possibilities for unintended negative consequences is the President's call to end "out-of-control compensation." The question, of course, is: Out of control by whose standards? Do Americans want Members of Congress deciding how much citizens are allowed to earn, or is that a decision best left up to those who are actually paying the salaries and know exactly what they are getting of value in return? The President says he wants to establish "clear incentives for good behavior," an indication, it would seem, that he views the American citizenry as children in need of guidance, with the government in the role of parent.

Is International Action the Solution? In calling for coordinated action, the President implies that strong international action by the G-20 working together is essential for recovery. Interestingly, however, the fundamental things that need to be done require no international cooperation at all.

The U.S. needs to restore growth. Other countries need to do the same. No doubt there can be some synergy in coordinated actions, but the fundamental decisions—government spending, tax rates, bank reserve requirements, the money supply—will be made domestically.

A government that acts intrusively and with market-killing borrowing, taxing, spending, or regulating can do a lot of harm. Governments doing such things cooperatively in a group like the G-20 can do even more harm.

Some seem to believe that 20 governments meeting together may produce wiser policy than one government acting alone. It is, of course, at least as likely that a group like the G-20—whose members include societies ranging from free market to avowedly communist, and political systems ranging from democracy to despotism—will opt for a lowest common denominator that reflects not wisdom but rather banality and political expediency. The President's statement of March 24 would seem to point in that direction.

The Devil Is in the Details. As in all government actions, it is only by seeing the details of what is actually done or not done that Americans will truly understand what is being proposed or enacted. For the U.S., it will be only when Americans see the details of any legislation that they will be able to understand where the President is setting the balance between economic growth and stability.

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1. "A Time for Global Action," The White House Blog, March 24, 2009, at *http://www.whitehouse.gov/blog/09/03/24/A-time-for-global-action* (March 24, 2009).
2. All quotes taken from the version of the President's op-ed published in Real Clear Politics at *http://www.realclearpolitics.com/articles/2009/03/a_time_for_global_action.html* (March 24, 2009).

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Those details are not forthcoming yet. Until they are clear, Americans should recognize the President's statement for what it is: a political declaration that temporizes, leaving options open and avoiding real decisions. It is either the essence of statecraft or a fatal delay while the economy drifts. On the positive side, free marketers might even claim that it is a blessing in disguise that will give the economy time to begin to recover on its own. Time will tell.

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