

## Chancellor Merkel Visits the Debt President

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The occupant of the White House may have changed recently. But the amount of ill-advised ideology coming from Washington has remained constant. Obama's list of economic errors is long -- and continues to grow.

The president may have changed, but the excesses of American politics have remained. Barack Obama and George W. Bush, it has become clear, are more similar than they might seem at first glance.



US President Barack Obama has not been shy about public spending.

Ex-President Bush was nothing if not zealous in his worldwide campaign against terror, transgressing human rights and breaking international law along the way. Now, Obama is displaying the same zeal in his own war against the financial crisis -- and his weapon of choice is the money-printing machine. The rules the new American president is breaking are those which govern the economy. Nobody is being killed. But the strategy comes at a price -- and that price might be America's position as a global power.

In his fight against terrorism, Bush had the ideologue Dick Cheney at his side. "We must take the battle to the enemy," he said -- and sent out the bomber squadrons toward Iraq on the basis of mere suspicion. The result of the offensive is well known.

Obama's Cheney

Obama's Cheney is named Larry Summers. He is Obama's senior-most economic advisor, and like the former vice president, he is a man of conviction. The financial crisis may be large, but Summers' self-confidence is even larger. More importantly, President Barack Obama follows him like a dog does its master.

The crisis, Summers intoned last week at a conference of Deutsche Bank's Alfred Herrhausen Society in Washington, was caused by too much confidence, too much credit and too many debts. It was hard not to nod along in agreement.

But then Summers added that the way to bring about an end to the crisis was -- more confidence, more credit and more debt. And the nodding stopped. Experts and non-experts alike were perplexed. Even in an interview following the presentation, Summers was unable to supply an adequate explanation for how a crisis caused by frivolous lending was going to be solved through yet more frivolity.

Summers has no misgivings, and doesn't recognize those held by others. The fact that German Chancellor Angela Merkel recently gave a speech in which she was critical of the US economic stimulus program did not impress Summers. In our conversation, he said he thought Merkel's position was a tactical one. "She only says that out of domestic concerns," he said and rolled his eyes in disapproval. The battle must be taken to the enemy.

Just as the US public initially rallied behind the war President Bush -- even to the point of re-electing him -- Americans have now thrown their support behind the debt president Obama. The mistakes of the Bush administration are now widely accepted. The mistakes of the Obama administration are still not recognized as such. They are seen as the truth.

#### The Obama Administration's Five Errors

Mistake number one: It's not as bad as it seems. The US amassed much more debt during World War II, it is often said. That, though, is not true. According to conservative forecasts, Obama's policies could end up being three times as expensive as US expenditures during World War II. If one calculates using today's prices, America spent \$3 trillion for the war. Obama's budgetary calculations for the decade between 2010 and 2020 assume additional debt of \$9 trillion.

Second: It is generally assumed that the money is part of an effort to resuscitate the crisis-plagued economy and is thus serving a good purpose. The truth of the matter is that the bulk of the borrowed money will be used to finance the normal US budget. American borrowing in 2009 comprises about half of Obama's budget. The country is living beyond its means -- and it still would have been even if it weren't for the economic crisis.

The third error: Many believe that when the crisis ends, borrowing will automatically fall. The truth is that it could climb afterwards. The graying of American society creates a new fiscal policy challenge for the country that so far hasn't been reflected in any budget plan. According to calculations by the International Monetary Fund, Washington would need to spend several times more than it is now just to service current pension entitlements and the free, state-funded medical care provided to senior citizens. In addition, Obama has promised to introduce

healthcare coverage for America's close to 46 million uninsured. That would be like adding a country the size of Spain to the US.

## Lost Trust

Fourth: The world believes that the US is borrowing money from capital markets. It is often said that the Chinese and the Japanese will buy government bonds. But the truth of the matter is that trust in the gravitas and reliability of the United States has suffered to such a great degree that fewer and fewer foreigners are purchasing its government bonds. That's why the Federal Reserve is now buying securities that it has printed itself. The Fed's balance sheet has more than doubled since 2007, making the US central bank one of the world's fastest-growing companies. The purpose of this company, though, is to create money out of thin air.

Fallacy No. 5: The additional money is harmless because the economy is starting to pull together again and there is no threat of inflation. The truth is that the quiet on the inflation front is deceptive. The hot money is accumulating in people's savings accounts and in the balance sheets of banks that aren't keen to lend money at the moment. The supply of money has increased by 45 percent in the last three years and there has not been a corresponding rise in hard assets or production. That imbalance will eventually make itself felt in the form of inflation.

The dollar, which has already lost 40 percent of its value against the euro since 2000, would then devalue and its reputation would be further diminished. The world's reserve currency could be pushed through the floor by the shockwaves. At that point, those waves would also wash over the rest of the world. Then people would have to look back and say that the means the US used to fight the economic crisis in fact paved the way for a currency crisis.

The German response to the excesses of the Bush era was refusal and obstinacy. Gerhard Schröder refused to go to war in Iraq with America and he organized a European resistance front the reached from Moscow to Paris.

Germany still hasn't provided its response to the Obama administration's fiscal policy excesses. Perhaps its time for Merkel to take her cue from Schröder.

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