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U.S. Pushes Europe to Act With Force on Debt Crisis



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President Obama and Chancellor Angela Merkel of Germany at the White House in June.

By MARK LANDLER and BINYAMIN APPELBAUM
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WASHINGTON - The Obama administration, increasingly alarmed by the spillover effects of Europe's financial crisis, has begun an intensive lobbying campaign to persuade Chancellor Angela Merkel of Germany and other leaders to ramp up efforts to stem any contagion from the debt crisis in Greece.

In phone calls and meetings over the last week, President Obama urged Mrs. Merkel and President Nicolas Sarkozy of France to take coordinated measures - including spending billions in additional funds to bail out Greece and bolster European financial institutions - to prevent Greece's debt woes from spreading to its neighbors.

The American pressure was on display again Friday and will be this weekend at a gathering of the world's finance ministers in Washington.

Yet administration officials played down the likelihood of concerted action emerging from these meetings of the International Monetary Fund and the World Bank. At best, they said, the ministers might lay the groundwork for a bolder response in November, when leaders of the Group of 20 industrialized nations meet in Cannes, France.

Recognition is growing that Europe's debt crisis is now perhaps the largest shadow hanging over the global economy. Although trade with Europe represents only a small share of the American economy, Europe's problems have repeatedly rattled Wall Street over the last year and a half, eroding confidence and deepening fears of businesses and consumers.

"The biggest single risk to the United States today is that the European situation will spiral out of control," said Edwin M. Truman, a former Treasury official who is now at the Peterson Institute for International Economics. "Europe is not going to save the U.S. economy, but it could be the straw

that breaks it."

Kenneth Rogoff, a Harvard economist who has written about the history of financial crises, puts Europe's effect on the United States in blunt political terms. "The downside scenario is awful," he said, "and if it happens before the U.S. election, it would turn a toss-up election into one in which the president is a huge underdog."

"The administration's hope is that the Europeans will kick the can down the road far enough that it gets past the election," said Mr. Rogoff, who has advised Mr. Obama and Republicans.

The administration has trained much of its attention on the figure who may have the greatest ability to influence the outcome in Europe: Mrs. Merkel, the German chancellor. Since he took office, Mr. Obama has met or spoken with Mrs. Merkel 28 times - a pace befitting someone who may have as much influence on his fortunes as his rivals in Washington.

In their most recent call, on Monday, Mr. Obama encouraged Mrs. Merkel to throw more financial firepower at the crisis. The conversation delved into technical details, as well as the risk of financial contagion, said a senior administration official who was not authorized to discuss the call and spoke on condition of anonymity.

Mrs. Merkel faces daunting political obstacles - which Mr. Obama fully recognizes, this official said - in persuading the German public to spend hundreds of billions of euros to bail out Greece and potentially other Mediterranean countries.

While the United States is offering lessons drawn from its own crisis in 2008, the Treasury secretary, Timothy F. Geithner, and other officials are treading carefully to avoid antagonizing Europeans who complain the United States has no business lecturing them. When Mr. Geithner attended a meeting of European finance ministers last week in Wroclaw, Poland, a handful of officials from smaller countries criticized him afterward, but American officials said the meeting was more productive behind closed doors.

The administration's lobbying effort takes two main forms. One is to press the argument, supported by many economists, that Germany benefits enormously from preserving the euro in its current form rather than abandoning it or standing by as it collapses.

By combining its Deutschmark with the currencies of poorer countries, like Greece, Germany has been able to have a cheaper currency than it would on its own and to export far more than it otherwise might. And exports, which account for a larger share of the German economy than the American economy, have been the main engine of Germany's recovery.

"There's a growing narrative that this is a morality play, that this is all about fiscal profligacy in Southern Europe," said Austan Goolsbee, a former top economic adviser to Mr. Obama, speaking on a panel discussion Thursday at the I.M.F. offices. "But if the Germans are saying, 'We don't like the spending by Southern Europe,' they must also recognize that they've been the great beneficiaries."

The second part of the American effort involves pushing European leaders to strengthen the institutions at the center of their response to the crisis: the European Financial Stability Facility, which is the Continent's main bailout fund, and the European Central Bank.

There is widespread agreement among outside observers, including Americans like Mr. Goolsbee, that the current bailout fund of 440 billion euros (\$600 billion) is not large enough. But there is also doubt about the political and financial ability of some countries to increase their contributions.

Officials are focusing instead on ways to leverage its power.

In a communiqué issued by the Group of 20 in Washington on Thursday, finance ministers noted that European governments were taking actions to make the fund more flexible and "maximize its impact in order to address contagion."

"We need the right firewall to prevent contagion," François Baron, the French finance minister, said on Thursday. "We can discuss how to give it the necessary strength."

One option for making the fund more flexible, suggested by American officials, is a program in which governments use their pooled resources to guarantee loans for investors who buy the debt of troubled countries. The loans would be made by the European Central Bank, but the finance facility would absorb any losses, leveraging its resources because it could guarantee bonds with an aggregate value many times larger than its available funds.

Such a program would be a variant on an American effort, the Term Asset-Backed Securities Loan Facility, or TALF, that was operated with mixed results by the Treasury and the Federal Reserve in the wake of the 2008 crisis.




American officials have also emphasized the Fed's outside role in responding to the financial crisis here and urged Europe to view the Fed as a model. It made trillions of dollars in loans so that investors remained able to buy and sell a wide range of financial products.

The Fed also has pressed down repeatedly on interest rates to reduce the cost of borrowing for businesses and consumers. The European Central Bank has been more cautious, actually raising interest rates earlier this year.

"The set of solutions and methods to address the situation is quite well known," said Christine Lagarde, the managing director of the I.M.F., at the start of the meetings. The challenge, she added, was "pushing the leaders into the direction where they have to take much-needed, more action than what has already been done."

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