

## A fine balance for Obama to strike

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American presidents sometimes give interviews in the Oval Office. On this occasion Barack Obama chooses the nearby Roosevelt room, named after Teddy Roosevelt and his distant relative Franklin Delano Roosevelt, the last American president to be faced with a global economic crisis of this magnitude.

Then, like now, the president inherited a world economic summit in London that was scheduled just a few weeks after he took up residence in the White House (FDR came to office in March 1933, the summit was in April). Fatefully, Roosevelt chose not to attend.

Then, like now, the politics of domestic economic collapse crowded out much time for the rest of the world. Yet this time the crisis is even more global. Mr Obama also inherits an April crisis summit in London, the meeting this Thursday of the leaders of the group of 20 industrialised and developing nations.

Mindful, perhaps, that posterity blames FDR's absence as the chief reason the 1933 summit failed to arrest global depression, Mr Obama emphasises the need for G20 leaders to be singing from the same song sheet: "The most important task for all of us is to deliver a strong message of unity in the face of crisis," he says.

But his biggest challenges are probably at home. Dressed in a dark suit and a tie in the ruby-red he often favours, Mr Obama discloses that he reads global newspapers – an option not available to FDR: "I read the Financial Times before other people read the Financial Times [in Chicago in the 1980s]," the president says. "Now it's trendy and everybody carries around a Financial Times."

Seated opposite an imposing portrait of FDR and flanked by the famous "Rough Rider" portrait of Theodore Roosevelt, Mr Obama betrays few signs – other than a hint of fatigue – that the economic and political maelstrom around him has induced personal stress. Speaking without notes, props or assistance from aides, the president answers in the professorial "no drama Obama" manner which helped persuade America's voters last November he had a better temperament than John McCain to cope with this multiplicity of emergencies.

These are immediate and tangible. Just 66 days into his new job, Mr Obama enters the interview having just unveiled a new strategic policy on Afghanistan and Pakistan, including sending another 4,000 American troops into the field on top of the 17,000 he announced last month.

Earlier he had also hosted a meeting with a group of Wall Street executives, including Lloyd Blankfein of Goldman Sachs and Jamie Dimon of JPMorgan Chase, who seemed grateful simply to be invited rather than pilloried by legislators on Capitol Hill.

Mr Obama speaks of the Wall Street executives with disapproval rather than resentment, in a clear moderation of some of the rhetoric he was employing until recently. "It was a constructive conversation," he says. "But one of the points that I made is that at a time when everybody is needing to sacrifice there has to be a similar sense of sacrifice on the part of those various sectors of the economy that helped to precipitate this crisis."

Shortly after his election, Mr Obama promised to "hit the ground running". Even the highly ambitious president-elect could not have anticipated just how much running that would entail. Or how many opportunities there would be to trip up, one or two of which he has taken, such as the succession of nominees for senior posts who had to withdraw.

Following the failure of the first attempt last month by Tim Geithner, Treasury secretary, to announce guidelines for the removal of toxic assets from bank balance sheets, critics fear that Mr Obama still lacks a full strategy to revitalise the financial system.

Last week Mr Geithner unveiled the latest initiative to deal with toxic assets. The plan was attacked by some as insufficiently radical, but the president points to the stock market rally that followed. "Tim Geithner's efforts to provide a market for asset-backed securities has helped [but] we still have a long way to go," he says.

The president is also in the midst of increasingly tense negotiations with Capitol Hill over the White House's breathtakingly ambitious \$3,600bn (€2,700bn, £2,518bn) budget – incorporating the biggest pledges, notably universal healthcare and a cap-and-trade system for carbon emissions, on which Mr Obama campaigned before the economy started collapsing.

His budget could yet unravel amid outrage over the kind of double digit fiscal deficits last seen in the second world war when FDR was in the closing stages of his life. Then there is the small matter of managing a drawdown of US combat troops in Iraq, their redeployment to Afghanistan – the "graveyard of empires" – a continued global terrorist threat and, closer to home, the possibility of neighbouring Mexico being torn apart by a drugs war.

Much like FDR, who believed presidents should try everything, junk whatever fails and move swiftly on, Mr Obama conveys a pragmatic approach to the economic emergency, suggesting it is still a work-in-progress.

Nor, perhaps, can Mr Obama have anticipated the degree of high-wire balancing that is required of him – between the demands of increasingly populist politics and the need to take steps that will dig America and the world out of the economic crisis as quickly as possible.

Here the president faces an Everest. He concedes there is a gulf between what is politically possible and what may prove to be economically necessary. Ten days ago the House of Representatives voted to impose a 90 per cent tax retroactively on bonuses for those earning more than \$125,000 who work at taxpayer-aided firms – the same firms who may now be deterred from participating in future government rescues.

The final version is likely to be diluted in the Senate next month. "That is one gap," says Mr Obama. "Then there is a gap in ideas about how to approach a crisis like this, especially among economists – although on the issue of the stimulus there seems to be a much broader consensus [Mr Obama signed a \$787bn two-year stimulus bill into law last month]."

He admits there is much less unity on how to repair the financial sector. Some, including liberal critics such as the Nobel-prize winning economists Paul Krugman and Joseph Stiglitz, argue for all-out bank nationalisation. Conservatives, meanwhile, believe the White House bail-out plan is the road to socialism.

Where consensus does reign is in the outrage felt across the political spectrum over the bonuses that recipients of US taxpayer largesse, such as AIG and Citigroup, have been awarding senior employees. There is also the balancing act of pumping lots of new spending into the economy while reassuring Treasury bond investors, particularly the Chinese, that the US remains committed to medium-term fiscal discipline. "In all countries there is an understandable tension between the steps that are needed to kick-start the economy and the fact that many of these steps are very expensive," says Mr Obama.

This also requires balancing. The president is trying to share the public's outrage over Wall Street's runaway culture of over-remuneration without alienating the financiers whose co-operation would be integral to the success of his bail-out plans.

The admonition is calibrated. "To the extent that they [the Wall Street bosses] are showing restraint that compensation packages are structured so that there is some deferral until money is returned to taxpayers, that will be good for everybody," he says. "That will put me in a stronger position to help them."

Mr Obama has tried, with limited success, to persuade the US public that what is good for Wall Street is good for Main Street. Until bankers show serious restraint, it will be hard for him to return to Capitol Hill to ask for the hundreds of billions more that most economists believe will be needed to recapitalise the US banking sector. There is a limit to public largesse.

"If voters perceive that it is a one-way street, that we are just pouring more and more money into institutions and seeing no return other than avoiding catastrophe, then it is harder to make an argument for further intervention," he says.

Moreover, the steps the White House has taken since Inauguration Day will take time to show results, assuming, that is, they ever do. The president believes they already are. He cites "glimmers of stabilisation" in the US property market, where housing starts recently rose, and in the markets for cars and student loans.

Only a handful of economists forecast a return to strong growth next year. Some fear that a contraction of between 3 and 6 per cent in gross domestic product this year could be followed by more of the same in 2010. "What is also difficult is the fact that the policies we initiate all take time to take effect and by its very nature politics looks for more instantaneous gratification," the president says.

Then there is the international balancing act. Mr Obama wants to unite America's potentially fractious partners behind a co-ordinated stimulus and new financial regulation in London this week while also arresting the threat of protectionism. Unlike FDR, Mr Obama does not inherit the Smoot-Hawley Act, which erected steep trade barriers that entrenched the Great Depression and helped pave the way to world war two.

However, the US and its partners broke their promise at the first G20 summit last November to restart the Doha round of world trade talks. According to the World Bank, which has

accumulated 73 examples of protectionist measures since then, many countries are moving in the opposite direction.

The president is understanding towards his partners, not least perhaps because he recently signed into law "Buy American" clauses that discriminate against foreign suppliers. While pointing out the "Buy American" provisions are consistent with World Trade Organisation rules, he observes: "I think in a democracy there are always going to be some loose ends out there. That is true here and true around the world but overall I don't think that we have seen a huge rush to protectionism," he adds. "To the extent that the American people [and others] feel confident their leaders are doing everything they can to encourage and promote economic growth, I think we are going to be able to hold the line on any significant slippage."

The modulated phrasing strikes a clear contrast to the stentorian tone favoured by many of the president's predecessors, George W. Bush in particular. Yet there is still an underlying message. On the need for a co-ordinated stimulus, with which many European leaders – most recently Angela Merkel, the German chancellor, in an FT interview – disagree, Mr Obama says: "Each country has its own constraints, its own political rhythms and what we want to make sure is that everybody is doing something...and that we are prepared to step into the breach should current efforts prove inadequate."

Likewise, time would convince Washington's partners of the necessity of stronger steps. "You know the financial crisis hit the United States first...Not surprisingly we took some very aggressive action earlier than some other countries...I think the sense of urgency has grown and you are going to start seeing a convergence."

At home Mr Obama has been criticised for displaying an allegedly light-hearted attitude towards the crisis. One interviewer even accused him of being "punch drunk". Supporters say that while Mr Obama may not be able to "feel your pain" in the manner of Bill Clinton, for example, America's 44th president is good at reducing your fever.

Mr Obama conveys a degree of pragmatism that may strike a contrast to Mr Bush with some of his counterparts this week – notably Dmitry Medvedev, the Russian president, and Hu Jintao, his Chinese counterpart, who will hold one-to-one meetings with Mr Obama in London. Neither has yet met him.

Along with the pragmatism, Mr Obama also shows an occasional flash of humour. "Obviously I admire economists – I have a whole bunch of them on my staff," said Mr Obama, whose senior economic adviser, Lawrence Summers, is arguably the most powerful of that profession in the world. "But to start to make a whole host of plans about next year, without having better information on how the current stimulus efforts are working, is something that I think is of concern."

Following the London meeting, Mr Obama will travel to Strasbourg for a Nato summit where he will attempt to drum up support for the expanded US operations in Afghanistan, then on to Prague for a meeting with the heads of the European Union and finally on Sunday to Turkey where he will deliver a set-piece address – his first visit as president to a majority Muslim country. It is an ambitious itinerary. Everywhere he goes, thousands of anti-globalisation protesters await him along with tens of thousands of celebrity-watchers hoping to catch a glimpse of America's most popular leader since John F. Kennedy.

Many believe that the G20 summit will prove a vacuous waste of time and that the world economy will continue to be sucked into the recessionary vortex. Mr Obama, however, projects a Zen-like calm towards the emergencies that he faces. If his rescue operations fail to arrest

the tide, history may show him to have been too unfazed. If things started to stabilise and improve, Mr Obama could be hailed as the new FDR.

On the eve of the most important world economic gathering in decades, Mr Obama is still keeping the drama at arm's length. "I am confident that the American people, and I think people around the world, are looking to its leaders to lead and that some of the steps we have already taken are starting to bear fruit," Mr Obama says with the same tone he has struck at home in recent weeks.

Politics demands that Mr Obama continues to rally the support of America's increasingly impatient – and economically beleaguered – electorate. Governance requires he keeps trying to lower its pulse.

In the meantime, Mr Obama may yet to have settled on a lasting plan to revive the financial sector. "I am confident that if we are persistent and we don't approach this with a thought that there is a silver bullet out there but instead we are willing to try a range of methods...that we will get out of this current crisis," he says.

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