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Obama's morbid fear of EU meltdown

107

By Richard McGregor in Washington

For a summit with a continent in crisis, this week's meeting between Barack Obama and European leaders was a strangely low-key affair, with only a moment set aside for photographers and no joint press conference at its end.

But behind the scenes, within both the administration and Mr Obama's campaign team in Chicago, there is a morbid fear about a eurozone meltdown and its flow-on impact on the US economy and the president's re-election chances.

"The thing that matters the most in determining the health of the US economy and job creation is what happens in Europe," says a senior administration official.

Mr Obama and his advisers met on Monday with Herman Van Rompuy, the European Council president, José Manuel Barroso, the European Commission president, and Catherine Ashton, the region's chief foreign policy official.

Afterwards, Mr Obama was diplomatic. His ambassador to the European Union, William Kennard, was more blunt, saying: "The president has made clear repeatedly he would like to see bolder, quicker, more decisive action by European leaders."

The administration worries that the tentative US recovery, and any success it might have in pushing a new stimulus plan through Congress, will be undone by the eurozone's inability to negotiate a political settlement of its debt problems.

Mr Obama and the Democrats in Congress are locked in talks with Republicans in Congress over an extension and expansion of payroll tax cuts into next year, along with a continuation of jobless benefits. The Senate is due to have its first vote on the issue on Friday.

If the administration does manage to get even a part of its jobs package through, however, it may provide little stimulus if the eurozone is coming apart at the same time.

"There is no question that if the eurozone crisis continued and it started to break apart there would be a severe economic impact and political consequences," said Tony Fratto, a Treasury adviser under George W. Bush.

Any financial crisis in Europe could have spillover effects into US banks and the financial system more broadly, even before hitting consumer confidence and the real economy.

Although exports are a relatively small share of output, the US needs to increase sales overseas if it is to wean the economy off its reliance on consumption and housing for growth and a European recession will hamper that..

Despite the severe threat that the crisis poses to the US, Washington's leverage remains frustratingly limited.

Even if Europe needed and requested financial help from the US, the money would not be forthcoming. "Congress would say no," said Jacob Funk Kirkegaard of the Peterson Institute for International Economics in Washington.

Besides moral suasion and offering wisdom gleaned from handling its own financial crisis in 2007-08, the US has a role in the eurozone rescue as a big shareholder in the International Monetary Fund, which is providing funds.

But the administration remains firm that the eurozone has enough money of its own to build a financial firewall around the currency union and does not see any need to solicit extra cash from emerging markets such as China to buttress either the region's efforts or the IMF's firepower.

Like the eurozone itself, the administration is captive of German domestic politics and Chancellor Angela Merkel's juggling act balancing support for European unity with local taxpayer discontent about ever rising demands for funds to bail out its neighbours.

Mr Kirkegaard said he was "surprised" at how tactful Mr Obama was in public after the summit and expected him to be "more forceful" in grasping an opportunity to talk to a domestic audience about the crisis.

Just as he rails against a "do-nothing Congress", he could take a stand against "a do-nothing Europe", he said, adding: "Maybe he thought the people in the room were not the actual decision makers, or they told him something he wanted to hear."

Mr Obama may toughen his public line on Europe as the 2012 presidential election campaign intensifies and he is called upon to defend his economic record, because, as the incumbent, he will be blamed regardless.

"It would not be: 'You didn't do enough to save Europe,'" said Mr Fratto. "It would just be the fact that the country is in another recession."