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G-20 May Signal Turning Point
By LAWRENCE HAAS

The G-20 summit marked what could prove a historic turning point in economic history – a moment when the United States and its allies split over the near-term direction of economic policy, with potentially huge implications for the future prosperity and living standards for people the world over.

Arriving in Toronto, U.S. leaders argued for continued stimulus. Their European counterparts pushed for a shift to deficit cutting. Europe largely prevailed, as the summit's concluding statement called for governments to halve their deficits by 2013 and stabilize their debt as a share of gross domestic product (GDP) by 2016. But, with a nod to U.S. concerns, it would be done in ways that would be "growth-friendly."

Their agreement comes in the midst of a heated debate among policymakers and leading economists on a central question: what's the greatest risk to the recovery – too little stimulus or too much debt? At stake is not just the recovery but the future of Keynesianism and competing economic theories.

That debate has played out vividly in recent days not just in Toronto but on the op-ed pages of our leading newspapers.

New York Times columnist Paul Krugman continued his crusade for ongoing Keynesianism today, arguing the world reacted correctly to the financial meltdown of 2008 and 2009 by cutting interest rates, supporting credit markets, and allowing deficits to rise. Now, with the economy still weak and unemployment very high, he says, the world has turned inexplicably to the failed Hooverism of hard money and balanced budgets.

"We are now, I fear, in the early stages of a third depression," he writes, following those of 1873 and the 1930s. "And this third depression will be primarily a failure of policy" in both Europe and the United States.

The *Wall Street Journal* would beg to differ. Previewing the G-20 on Saturday, the *Journal* happily anticipated "the end of the neo-Keynesian economic moment, and perhaps the start of a healthier policy turn.

Where Krugman sees a Keynesian rescue since 2008, the *Journal* sees Keynesian failure. Where Krugman breathes a sigh of relief for the collapse that was averted, the *Journal* focuses on the continued economic "muddling" across the West and finds that the Keynesian approach simply hasn't worked.

Where, most importantly, Krugman sees more public debt as a necessary price for the vital additional stimulus, the *Journal* declares that the bond markets, Europe's leaders, some U.S.

lawmakers, and U.S. voters are rightly demanding a course correction that would abandon stimulus and address deficits.

And so, in this era of skyrocketing deficits in major industrialized nations, we return to the question that is vexing policymakers and economists across the globe: how much debt can nations carry? Or, to put it another way, at what point will markets revolt, confidence wane, and lending dry up?

In some places, that point is apparently now, Robert Samuelson writes this morning in the *Washington Post*. “Greece’s huge debt (debt-to-GDP ratio: 123 percent) resulted in a steep rise in interest rates,” he writes. “Germany and Britain are debating plans to cut their deficits to avoid Greece’s fate.”

Samuelson cites Harvard economist Kenneth Rogoff, who has been warning that debt-to-GDP levels that some European nations have reached and the United States will approach in the coming years could hamper economic growth.

Krugman will have none of it. He says that he’s hard-pressed to find a correlation between a nation’s fiscal performance and the market’s reaction to it.

Krugman, however, seems to be swimming against the tide. Led by Europe, and in a sharp turn in direction, the G-20 is embarking on a grand anti-Keynesian experiment.

The world holds its collective breath, awaiting the outcome.

Lawrence J. Haas is former Communications Director to Vice President Gore and, before that, to the White House Office of Management and Budget. He’s now a public affairs consultant who writes widely about foreign and domestic affairs, including fiscal policy.