European Growth Still On U.S. Agenda, Not As Loudly

Jim Kuhnhenn, Associated Press

WASHINGTON (AP) — A year after President Barack Obama made an emphatic pitch to Europe's economic powers to focus more on economic growth than austerity, much of the eurozone remains mired in or near recession. Obama's appeals have had mixed results in softening the demands on some of the most debt-ridden European nations to cut their spending.

Still, the region's crisis is no longer perceived as an urgent threat to the global economy, and while the U.S. still wants Europe to temper the debt trimming and increase global demand, Obama is not expected to be as insistent with other leaders of the Group of Eight industrial nations when they meet in Northern Ireland next week.

Last year, the G-8 leaders assembled at the Camp David, Md., presidential retreat in the aftermath of European elections that represented a revolt against the austerity measures pushed by German Chancellor Angela Merkel. Obama himself was facing re-election and the U.S. economy was dominating the campaign. When Obama greeted Merkel and asked how she had been, the German leader merely shrugged. "Well, you have a few things on your mind," Obama replied then.

These days, the furor has died down, high-debt nations have been given more time to work on their fiscal cuts, and even the language has changed from "austerity" to "growth-oriented structural reforms."

"Relative to last year, things are somewhat better in that the European situation is more contained," said Matthew Goodman, a former Obama international economics adviser now at the Center for Strategic and International Studies. "The risks that people were worried about have been somewhat diminished."

Moreover, Obama arrives at the G-8 with Syria foremost on his mind. His decision to authorize lethal aid to Syrian rebels inevitably will be front and center during the summit, complicated by the attendance of Russian President Vladimir Putin, one of Assad's most powerful backers.

Nevertheless, the European economic picture remains bleak. The eurozone economy contracted about 0.8 percent in the first quarter, compared with the same period in 2012. Among the G-8 members, Italy and France saw their gross domestic product shrink 2.4 percent and 0.4 percent respectively over the first quarter of 2012. Germany, the region's largest economy, and Britain saw modest growth in the first quarter, but still sharply lower than other G-8 members.

Russia saw annual growth of 1.6 percent in the first quarter, the U.S. grew at 2.4

percent, Canada at 2.5 percent and Japan at 4.1 percent.

"The European Central Bank continues to be too tight," said Robert Shapiro, a former commerce undersecretary who also advised former President Bill Clinton. "The debate over austerity is far from over in England or in Germany. Moreover, right under the surface of all this remains the sovereign debt crisis. It has not been resolved."

As a result, administration officials and former government economic advisers say Obama and his aides will still push European nations to moderate their austerity programs of spending cuts and tax increases in favor of more stimulus to boost growth and counter the high unemployment that still afflicts many countries in Europe, particularly Spain and Greece.

Germany and Britain have resisted some of the U.S. entreaties, arguing that heavily indebted European nations must trim deficits to restore market confidence and lower government borrowing costs.

"I think, I hope, that the Obama administration realizes that its policy messages about cooling it on the austerity and start stimulating haven't worked in Europe," said Heather Conley, director of Europe programs for the Center for Strategic and International Studies in Washington who worked in President George W. Bush's State Department. "And this has been actually an area of growing tensions underneath the surface. It's private. They don't allow these to come more publicly, but it's really been quite, you know, a point of contention."

Japan's growth, however, stands as a potential example of the benefits of raising domestic demand. Questions remain whether the efforts of Japanese Prime Minister Shinzo Abe are sustainable. So-called Abenomics have also raised worries among U.S. manufacturers that Japan's real goal is to weaken the yen as a way to gain trade advantages.

Administration officials say they believe that they can make a compelling case by using the United States as an example of how to help the economic recovery without deep budget cuts. The Obama administration responded to the recession with a massive stimulus package in 2009. Officials argue that increased economic activity and a turnaround in the housing industry have helped increase revenues and lower the deficits.

But the U.S. deficits have also been lowered through steps that could also be deemed austerity measures, including a tax increase on wealthy Americans, restoration of a payroll tax on all workers and automatic budget cuts that kicked in March. By many economists' assessments, those steps have cost the U.S. economy 1 percentage point in potential growth.

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