

# Obama Needs 'Yes We Can' Abroad to Help End Global

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By Rich Miller

Jan. 19 (Bloomberg) -- The U.S. led the global economy into its worst recession in at least a quarter century. Now the rest of the world is looking to [Barack Obama](#) to lead the way out. The trouble is, even the incoming commander-in-chief of the biggest economy can't do it alone.

With industrial nations suffering their first synchronous decline since World War II, Obama needs policy makers in other countries to pull their weight. He also requires a resurrection of animal spirits -- among investors, banks, companies and consumers -- if his government-led effort to revive growth is to succeed.

"We're facing a more pervasive, more widespread downturn in the global economy than ever before," says [Allen Sinai](#), chief global economist at Decision Economics in New York. "It cries out for other countries to stimulate their economies, and stimulate them strongly, rather than to rely on a U.S. upturn to recover."

So far the response has been mixed. Some Asian nations, notably China, have announced big stimulus packages. While Europe has been more restrained, countries including Germany are coming around.

Obama, who will be sworn in as president tomorrow, has pledged to do whatever it takes to counter what he says may be the worst economic crisis since the Great Depression. The centerpiece of his plan: a roughly \$850 billion, two-year package of tax cuts and increased spending that his team has worked out with Congress. That's equivalent to about 3 percent of gross domestic product during the two years.

## Doing Too Little

Some economists say it won't be enough. [Robert Reich](#), labor secretary under President [Bill Clinton](#) and now a professor of public policy at the University of California, Berkeley, advocates a \$900 billion package -- and says Obama should be prepared to do even more if necessary.

"The danger is not that the government will do too much," says Reich, who advised Obama during his presidential campaign. "The danger is that it will do too little, too late."

A [study](#) by Obama's economic advisers found that the U.S. would still be saddled with an [unemployment rate](#) of about 7 percent in the fourth quarter of 2010, even with a large stimulus package. Without the stimulus, the jobless rate was projected at 8.8 percent. Unemployment in December was 7.2 percent, the highest in almost 16 years and well above the 4.4 percent level at the end of 2006.

## 'Sweeping Effort'

Obama has said the budget package won't solve all America's ills. In a Jan. 8 speech, he called for a "sweeping effort" to help people who face foreclosure remain in their homes. He pledged to prevent "catastrophic failures" of banks and promised to overhaul "weak and outdated" financial regulation.

While Obama, 47, may be trying to temper expectations in the U.S., "hopes are high in Asia" that the U.S. stimulus will help countries there weather a collapse in [exports](#), says [Tim Condon](#), head of Asia research at ING Groep NV in Singapore. "They were pushed into trouble by an external shock and so want another one to help them accelerate their way out."

Condon says he doubts the Obama plan will be much help to the region. About \$550 billion of the program consists of spending on such things as roads, bridges, education, health care and other domestic projects that would do little to boost America's [imports](#) from Asia or elsewhere.

## Fiscal Packages

China, India and other Asian nations have announced fiscal packages of their own totaling more than \$672 billion in an effort to get their economies going again. The biggest is from China, whose leaders in November unveiled a 4 trillion yuan (\$585 billion) program, equivalent to about 7 percent of GDP over two years.

Premier [Wen Jiabao](#) pledged Jan. 11 to add to the effort by accelerating spending on technology and announcing extra measures before the nation's legislature meets in March. He commented after touring Jiangsu province, a manufacturing hub hurt by the decline in Chinese exports, which dropped by the most in almost a decade in December.

"Asia's been pretty prudent in how it's managed fiscal policy," says [Robert Subbaraman](#), chief economist at Nomura International Ltd. in Hong Kong. "It's had high growth for a number of years and hasn't squandered that money. There's lots of fiscal firepower, and the encouraging thing is, it's using it."

#### Reticent Europe

Europe has been more reticent. [Laurence Boone](#), chief French economist at Barclays Capital in Paris, calculates that fiscal-stimulus plans for the region will total around 0.8 percent of GDP this year and 0.6 percent in 2010, less than half the U.S. package.

"Not all European countries have responded with enthusiasm," she says. "If we get more bad economic news, then we can anticipate larger stimulus packages later in the year."

German Chancellor [Angela Merkel](#)'s coalition agreed last week to spend an extra 50 billion euros (\$66 billion) this year and next and backed a fund to guarantee loans to companies, seeking to stem the country's worst recession since World War II.

"They're moving in the right direction," says [Adam Posen](#), deputy director of the Peterson Institute for International Economics in Washington. "It's still much less than needs to be done."

#### Pitching In

No matter how much governments do, it won't generate a lasting recovery unless companies, banks and consumers also pitch in.

"Fiscal expansion can't be the answer forever," says [Peter Hooper](#), a former Federal Reserve official who's now chief economist at Deutsche Bank Securities in New York. "You need to get private spending going again. You need to get the financial sector working again."

That may take a while. U.S. [retail sales](#) fell for the sixth straight month in December, the longest string of declines in records going back to 1992, as the credit crunch led Americans to cut back on everything from eating out to buying cars.

"We've got what looks like maybe one of the worst [recessions](#) in a long time," [Jamie Dimon](#), chief executive officer of [JPMorgan Chase & Co.](#), told reporters Jan. 15 after the second-biggest U.S. bank by assets reported a 76 percent drop in profits. "Everyone is struggling with this extreme environment."

For his part, Obama says he is under no illusion that things can be turned around anytime soon.

"There are no quick or easy fixes to this crisis, which has been many years in the making, and it's likely to get worse before it gets better," he said last month. "But now is the time to respond with urgent resolve to put people back to work and get our economy moving again."

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