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Geithner Takes Tougher Tone on Europe to Fight Debt Crisis Roiling Markets

By Ian Katz and Sandrine Rastello - Sep 14, 2011

Treasury Secretary Timothy F. Geithner will urge European governments to step up their crisis-fighting efforts amid Obama administration concerns that the region's woes may hurt the U.S. economy.

Geithner will press European Union finance ministers when he meets with them this week, a euro-area official said. The official spoke on condition of anonymity because preparations for the meeting, which takes place in Wroclaw, Poland, on Sept. 16 and 17, are confidential. It will be the first time Geithner has attended a session of Europe's Economic and Financial Affairs Council, known as Ecofin.

"The U.S. has always been discretely preoccupied and discretely present, and now it's starting to be intensely preoccupied and intensely present," said Nicolas Veron, a senior fellow at Bruegel, a Brussels-based economics research group.

Chinese Premier Wen Jiabao today indicated limits to what his nation will do to counter the European crisis. In a speech at the World Economic Forum in Dalian, China, he said that countries must "put their own houses in order." He added that China's own stable growth is among its contributions to the world economy.

Geithner's trip to Wroclaw will be his second to Europe in a week. He returned to Washington on Sept. 10 from a gathering of Group of Seven finance ministers and central bankers in Marseille, France, where he urged European leaders to "act more forcefully." The meeting in Poland includes officials from all 27 EU nations, a broader gathering than the G-7.

U.S. 'Nervousness'

The visit "underlines the nervousness of the administration in the U.S. about what's happening in Europe" and the effect the region's debt crisis is having on U.S. financial markets, Julian Jessop, chief global economist at Capital Economics Ltd. in London, said in an interview yesterday.

President Barack Obama told a group of Spanish-language journalists at the White House on Sept. 12 that "we're deeply engaged with Europeans to try to solve this crisis."

Large European countries "are going to have to get together and make a decision about how they can match currency integration with a more effective set of coordinated fiscal policies," Obama said, according to a transcript of the interview obtained by Bloomberg News.

'Very Damaging'

The Stoxx Europe 600 Index rose 0.9 percent yesterday. Societe Generale SA, which had plunged 8.1 percent, rallied 15 percent and BNP Paribas SA added 7.2 percent following a 12 percent retreat after the French banks said they are able to finance their operations.

The Standard & Poor's 500 Index advanced 0.9 percent at 4 p.m. New York time yesterday. The index is down 14 percent from its 2011 high on April 29.

The European crisis was "very, very damaging in the American economy last summer," Geithner told Bloomberg Television on Sept. 9. "It's been a significant cause to the slowdown we've had this summer and I think it's very important to the world that Europeans do what they need to do so that the problems they're facing don't spread, don't add to the pressures on the world economy as a whole."

U.S. Slowdown

Hiring in the U.S. unexpectedly stagnated in August and manufacturing expanded at the slowest pace in two years, reports this month showed. The economy will grow 1.8 percent in the third quarter, according to a Bloomberg News survey of economists Sept. 2-7, down from a forecast of 2.1 percent in the previous month's survey.

Geithner could urge European leaders at the Poland meeting to be more decisive, said Phillip Swagel, who was an assistant Treasury secretary for economic policy in the George W. Bush administration. "If they're going to support the countries in trouble, do it," Swagel said. "Or Germany and France should just decide they're going to focus on their own banks."

While Geithner takes a more visible approach toward Europe, the new management team at the International Monetary Fund also is increasing the pressure.

David Lipton, a former adviser to Obama, spent five weeks as a special adviser to Christine Lagarde, the new IMF managing director, before starting as her first deputy this month.

Jackson Hole

Lipton played a substantial role in drafting a speech Lagarde gave at the Federal Reserve's annual forum in Jackson Hole, Wyoming, according to three IMF officials who declined to be named because the information isn't public.

"Mr. Lipton was among various people who offered comments on speech drafts," IMF spokesman William Murray said in an e- mail response to a question about Lipton's role.

Lagarde said in the speech that European banks should be forced to build up their capital to prevent the continent's debt crisis from infecting more countries.

Without an "urgent" recapitalization, "we could easily see the further spread of economic weakness to core countries, or even a debilitating liquidity crisis," said Lagarde, a former French finance minister.

Lipton held various positions in the 1990s at the Treasury, where he worked with Geithner in the international affairs division.

"The way the U.S. handled the financial crisis and the lessons learned from that could become a much more important part of the IMF message to Europe," said Eswar Prasad, a senior fellow at the Brookings Institution in Washington and a professor at Cornell University in Ithaca, New York.

"Lipton has been very much a part of what's been happening in terms of the financial system and broader recovery effects," Prasad, a former head of the IMF's financial studies division, said in an interview yesterday. "Almost certainly those lessons are going to be much more incorporated into the senior management's thinking."

The IMF and World Bank meet Sept. 23-25 in Washington.

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