The New York Times

June 19, 2012

World Leaders Make Little Headway in Solving Debt Crisis

By HELENE COOPER

SAN JOSÉ DEL CABO, Mexico — President Obama and other world leaders pronounced themselves united in the effort to increase growth and employment in the global economy on Tuesday, but appeared to make only modest headway in persuading Chancellor Angela Merkel of Germany to drop her opposition to more government spending to alleviate Europe's debt crisis.

Meeting in the desert scrub of Mexico's Baja region in an effort to lift the sputtering world economy, the leaders of the so-called Group of 20 eschewed specific commitments, instead limiting themselves to more generalized promises to invest in public works, overhaul labor markets and use innovation, education and infrastructure investment to fuel economic growth. A more detailed plan to address Europe's crisis is expected to emerge next week after a European summit meeting in Brussels.

The meeting did, however, appear to foreshadow a move toward deeper banking integration in Europe, including possible action to put together a banking union that would guarantee deposits. But such a pact is still a ways off, and leaders, worried that the lack of more aggressive action would roil already unsteady world markets, waited until the close of the trading day on Wall Street before releasing their official statements.

Ms. Merkel, who has been under increasing pressure from Mr. Obama and some of her European counterparts to ease up on Germany's austerity-first prescription for the rest of Europe, appeared to take heart from the victory on Sunday of pro-Europe forces in Greece, thereby confirming the fears of some economists and European and American officials who fret that the Greek results might remove the impetus for quick action.

"Elections cannot call into question the commitments Greece made," Ms. Merkel told reporters. "We cannot compromise on the reform steps we agreed on."

With his own re-election chances directly tied to the European economic crisis as it drags down growth in the United States, Mr. Obama desperately wants Ms. Merkel to loosen the reins on spending and the austerity programs that have been imposed on Greece and the other struggling euro zone economies.

Toward that end, the president spent two days in Mexico shuttling between Ms. Merkel and other European leaders in an effort to get them to sign onto a specific pro-growth agenda. But for all his influence as the leader of the biggest economy in the world, Mr. Obama sometimes seemed a bystander, there to exhort and cajole the other European leaders (especially the German chancellor) but little else.

Mr. Obama acknowledged at a news conference at the close of the summit meeting that none of the steps announced here included “a silver bullet.” But he added that he believed “the sense of urgency among the leaders is clear.”

At times, the meeting of the world’s biggest economies, occurring in almost a split-screen fashion as a fragile, new Greek government was trying to form in Athens, had a surreal atmosphere. The meeting’s host — Mexico — serenaded reporters assembled for the closing news conference with Puccini’s operatic Nessun Dorma, in what seemed like a plea to Europe’s leaders to try to avoid further catastrophe.

The countries represented — 19 nations and the European Union — agreed to take the “necessary actions” to strengthen global growth and restore confidence, and promised that the euro zone countries would work to safeguard the euro’s stability.

The agreement reached by the leaders did open the door to more lending and spending if the European economy worsens. “Should economic conditions deteriorate significantly further, those countries with sufficient fiscal space stand ready to coordinate and implement discretionary fiscal actions to support domestic demand,” the statement said.

The leaders seemed to hint that they had brought Germany closer to the notion of a more integrated European banking system — like the American F.D.I.C. — that would pay to insure deposits in the event of failing institutions. “We support the intention to consider concrete steps toward a more integrated financial architecture, encompassing banking supervision, resolution and recapitalization, and deposit insurance,” the statement said.

Treasury Secretary Timothy F. Geithner said he was “encouraged,” and pointed to next week’s meeting in Brussels as a chance to see the Europeans put more flesh on the bones of their banking union plans.

Ms. Merkel said during a news conference: “From the side of the European Union, we argued unanimously and collectively that we are determined to solve the crisis, and to do it in a mix of fiscal consolidation, growth initiatives, and deepening of European cooperation. That reached very attentive ears here.”

But she added pointedly that a significant stimulus program, like the coordinated actions in the wake of the financial crisis, "cannot simply be repeated," and even said that Mr. Obama agreed. "The American president said, and we on the European side said, that doesn't work, the debts are too high for that."

That may be an oversimplification of the American position, since Obama administration officials have spent the last year trying to point to the example of the steps that they took, including the stimulus, to jump-start the economy in 2008 and 2009.

American officials at the summit meeting hoped that for all of Ms. Merkel's tough talk, her hard line was starting to soften. One hope is that she and other European leaders will allow the European Central Bank to create low-interest Eurobonds by either pumping in cash or pooling German debt with that of the weaker euro zone members. "We're seeing a shift in the European discussion regarding the critical importance of supporting demand and job growth," said Lael Brainard, the under secretary for international affairs at the Treasury Department.

A senior administration official said that the "tone" coming from the Europeans was, at long last, different from two years ago, and that the European leaders were starting to listen to Mr. Obama's lead-by-example message. "There was a long period many times over two and a half years when we came saying the basic lesson of the fiscal crisis was to keep focused on making growth stronger," the administration official said. "But a lot of people said they wanted to focus on the long term."

The official, speaking on condition of anonymity, said there was "a very welcome recognition of a significant change in tone by everyone now."

The meeting has been taking place just as the fragile global economy is stalling again, with the United States the sole bright spot, but even that is relative, given that American employment growth has weakened again. Britain and European countries seem to be either in recession or on the edge of recession, and emerging markets like China and Brazil are not picking up the slack.

Eswar Prasad, a professor of trade policy and economics at Cornell University, argues that political paralysis both in Europe and the United States have so hurt confidence that it has "stunted the effectiveness of macroeconomic policies."

Nicholas Kulish contributed reporting from Berlin.