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Lines Blur in U.S.-Europe Debate on Austerity

By JACKIE CALMES

As President Obama begins an annual meeting with the leaders of some of the world's richest nations on Monday in Northern Ireland, the economic-policy gulf that has divided them since the global crash in 2008 has narrowed significantly — just not exactly in ways that the White House would have liked.

The Europeans lately have slightly eased their austerity policies, after four years of deep spending cuts and rising taxes that many economists blame for keeping the Continent in recession long after America's ended.

And the Obama administration, after years of pressing Europe to adopt American-style stimulus measures, is now presiding — if reluctantly — over European-style austerity that is measurably slowing its recovery.

Much of that austerity is in the form of across-the-board spending cuts known as sequestration that were forced by Republicans in Congress. But Mr. Obama supported an end this year to both a temporary payroll-tax cut, which the Congressional Budget Office and private analysts credited with spurring consumer spending and creating jobs, and the Bush-era income tax cuts for the wealthy. What stimulus remains in the American economy can be credited to the expansionary monetary policies of the independent Federal Reserve System.

That new reality in the United States reduces the president's already limited leverage in his fiscal debate with Europeans, analysts on both sides of the Atlantic say, even as Europe's woes continue to act as a drag on its trading partners, including the United States.

"President Obama will continue trying to lead by persuasion rather than by example," said Eswar Shanker Prasad, an economics professor at Cornell University and a former official of the International Monetary Fund. "The U.S. is likely to push other countries towards adopting measures to support growth, including a slowdown in the drive for fiscal austerity, but against the backdrop of its own premature fiscal tightening."

With the United States "just beginning to solidify its recovery, the last thing it needs right now is a major shock emanating from Europe," Mr. Prasad added. "But the reality is that the U.S. can only jawbone. It cannot really influence policies in any substantive way."

American and European officials said in interviews that arguments over austerity versus stimulus, so prominent at international gatherings in recent years, are likely to be muted at the two-day summit conference of the Group of 8 industrialized countries that is being held at the lakeside Lough Erne resort in Enniskillen, Northern Ireland. Besides Mr. Obama, participants include the leaders of Canada, Britain, France, Germany, Italy, Japan and Russia — countries that account for about half of the world's economic activity.

The reduced emphasis on stimulus versus austerity occurs even as unemployment remains at double digits in much of Europe, stoking unrest especially among the young. In part it reflects the fact that this spring, in advance of the summit conference, Treasury Secretary Jacob J. Lew and his counterparts among European financial ministers hashed out their differences so the heads of state could focus elsewhere. Also, the Group of 8 agenda is set by the gathering's host — for this meeting, the conservative and pro-austerity prime minister of Britain, David Cameron.

Yet even Mr. Cameron's agenda, on international taxation, tax transparency and trade, is likely to be overshadowed by the allies' intensifying debate over whether and how to intervene in Syria's worsening civil war.

That likelihood was suggested late Friday by a summary from Mr. Cameron's Downing Street office about his pre-summit videoconference with Mr. Obama, Chancellor Angela Merkel of Germany, President François Hollande of France and Prime Minister Enrico Letta of Italy. They discussed "how G-8 countries should all agree to work together on a political transition to end the conflict" in Syria, according to the statement from London. But significantly, the call did not include President Vladimir V. Putin of Russia, Syria's most important ally and arms provider.

Administration officials say that Mr. Obama is likely to make his most fulsome economic arguments against Europe's continued emphasis on budget cutting — and for the relatively successful American model — after the Group of 8 meeting, when he flies to Germany. On Wednesday he is to be in Berlin for a state visit with Ms. Merkel.

The German chancellor, as the leader of Europe's biggest and strongest economy, has had an outsize influence on the economic direction of the European Union. She and the German finance minister, Wolfgang Schäuble, have insisted that Greece, Portugal and other so-called peripheral economies among the 17 European Union nations that use the euro must continue to cut their budgets and to restructure costly labor, health and retirement programs for long-term fiscal stability. Providing additional bailouts without such budget pressure would only encourage further profligacy, the Germans contend, and it could set off inflation.

Germany recently acquiesced, however, to give France, Portugal, Italy and Spain two more years to reduce their deficits to the European Union’s target, freeing them to perhaps loosen spending and cut taxes in the short term with the aim of increasing consumer demand and business activity. The administration, while applauding the concession, would have preferred that the Germans had instead allowed the other countries to increase their deficits, not just delay their deficit reductions.

Mr. Prasad, the international economist, said Mr. Obama would have “a tough sell” with Ms. Merkel.

“But I think even Merkel has come around to the view that pushing too hard on fiscal policy in the short term is going to be potentially counterproductive,” he added. “The complication is that she faces elections in the fall, and the notion of continuing to subsidize the euro zone periphery economies is not something that would sell in Germany.”

At the Group of 8, the opening session is for discussing the global economy. Previewing the summit meeting on Friday, Caroline Atkinson, Mr. Obama’s chief adviser for the event, acknowledged that “the context for that discussion has changed a lot over the past year,” given economic developments in both Europe and the United States.

“In Europe, for example, financial tensions have eased considerably, but large parts of Europe remain in recession and unemployment in some countries is at record highs,” Ms. Atkinson said. “In the U.S., our recovery is under way. We’ve successfully avoided the fiscal cliff and our budget deficit is declining rapidly. But of course we have more work to do to create jobs.”

She added, “We expect that G-8 leaders will express a consensus that growth and jobs are a top priority.”

The problem is that the Americans and the European leaders continue to define what produces growth in different ways — differences that have a parallel in the domestic debate between Mr. Obama and Republican lawmakers. Ms. Merkel and Mr. Cameron say that reducing deficits and debt to reassure lenders eventually will bring growth. The Americans say that the United States’ recovery shows that, in a crisis, stimulus should come first and deficit reduction can follow once growth is restored.

“If Europe had done like we did, they may not be in the situation they’re in,” said Tony Fratto, a Treasury official during the George W. Bush administration. “Europe went straight to austerity before growth,” he added. “They’re actually still in a sustained recession — and in some countries it’s a sustained depression.”

The European Union's top economic policy maker, Olli Rehn, has signaled a softening of austerity recently as a long-promised recovery failed to materialize. But in an interview last week, the European Commission president, José Manuel Barroso, seemed to rule out a program of economic stimulus.

Mr. Barroso challenged calls by Washington and also by many in Europe for a retreat from policies of austerity.

"Let's not forget why we came to this situation: in many cases because of high levels of public debt and we have seen that growth fueled by debt is simply not sustainable," he said.

Andrew Higgins and Stephen Castle contributed reporting.