

Americans' habit of optimism works beyond the US too

KEEPING HOPES UP

Klaus Zimmermann

A KEY ingredient in the debate over the paths to global economic recovery is the debate over optimism versus pessimism. That debate is carried out vigorously all over the globe, including in South Africa.

But what about the sentiments of two of the world's major trading partners, the US and Europe?

With the advent of Barack Obama's presidency, in many ways the US and Europe have moved closer together in economic and social policy concepts.

This is primarily due to three factors: first, a general European trend over the past two decades to emulate more of the market-based approach of the US. Second, the strategic preference of the Obama administration to strengthen the rights of the consumer, while becoming tougher on corporations. And third, the fallout of the current recession, which is forcing US policy makers to opt for considerably more state spending than has been customary, whether to support the rather weak social safety net or to provide financial aid to ailing companies and industries.

These increasing similarities aside, one basic difference remains as pronounced as ever: when in doubt, Americans, by and large, take an optimistic view of the challenges ahead, while we Europeans tend to take a more pessimistic perspective.

This basic difference in attitude matters a great deal to the global economy, because it has significant economic effects. With unemployment at a 25-year high, US headline writers and market commentators are feverishly looking for signs of a turnaround. Larry Summers, the director of the National Economic Council and the top US

economic strategist, seems to have a special knack for coming up with a steady supply of new inspirational analogies to boost Americans' confidence and position the country for an economic turnaround.

Meanwhile, the European side feels caught in a trap. After first believing that the continent would escape this "made in America" financial crisis – a rare moment of European optimism, if you will – our economies were caught with a vengeance by the downturn. So we are now roundly criticised for failing to recognise the depth of the recession, and hence playing catch-up on everything from the size of stimulus packages to interest rate cuts.

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Why do these differences in economic sentiments and society-wide response mechanisms matter? Ultimately, it's all about the bond markets.

On either side of the Atlantic, a key concern is to secure financing for what are bound to be very large bond auctions to deal with the recession. There is nervousness among finance ministry officials in all major nations that investors are concerned about the size of those auctions, future economic growth prospects – and the low interest rates being offered for long-term obligations.

Given its quite rosy growth assumptions for next year – and in light of the 2010 mid-term congressional elections – the Obama administration has a keen interest in more positive thinking about the economy, while always taking great care not to appear too optimistic.

It is certainly painfully aware of the danger that an abundance of optimism can



Larry Summers

be detrimental to economic performance.

With the benefit of hindsight, few people now doubt that the way into the current economic crisis was riddled with key sectors turning blindly optimistic. Just take the assumptions that sport utility vehicles could carry the US vehicle industry forever, or that giving home mortgages to people without the financial means to pay for them would support the US housing industry in any sustainable fashion.

On that front, we Europeans usually do a better job. Given our general penchant to be doubtful, it is very hard for us to be more than guardedly optimistic.

A key question in the global economy is whether Americans will preserve their customary optimism. Viewed from a household perspective, doubts seem to be warranted. Americans are overindebted,

incomes have stagnated and, given the country's overall wealth level, the infrastructure is astonishingly weak.

In addition, the rise of China, India, Brazil and other large nations is increasingly viewed as stunting the economic growth potential of the US because growth dynamics are shifting to other continents.

But even the large budget deficits that are now on tap for years to come must be kept in proper perspective. Many of the reforms now under way in the US (in the health care sector, the financial industry and the infrastructure sector) are bound to raise the efficiency of the economy over the medium and long term.

The European experience indicates that smartly structured benefit levels can indeed improve productivity. If workers, for example, don't have to be worried

gravely about whether they have sufficient health insurance, they are more productive. A more diversified transport infrastructure, including high-speed trains, improves the quality of life – and the nation's productivity.

All this is why, on balance, despite the current doom and gloom, US policy makers seem quite justified in their focus on strengthening the somewhat shattered roots of American optimism. And that is something that matters far beyond US borders.

This optimism, if realistically applied, may turn out to be the most redeeming and vital American virtue. As we would painfully learn in its absence, it is a global public good of the highest order.

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