



1015 15th Street, NW, 6th Floor, Washington, DC 20005
Telephone: 202-777-3000 – Fax: 202-777-3010

Irwin Stelzer

17 March 2012

A Good Week for the President, the Prime Minister and the Economy. For Drivers, no so Good.

It's better to be lucky than good. So goes the old saw. It's better still to be both lucky and good, which is what Britain's new Ambassador here in Washington seems to be. Sir Peter Westmacott surely demonstrated just how good he is at what he does by setting up a dream visit for Prime Minister David Cameron. Photops with President Barack Obama are surely more valuable to the Prime Minister than to the President, so getting the White House to go along could not have been easy. Sources in London tell me that the generous remarks by President Obama, praising Cameron's personal courage, reliability and other virtues already has

European leaders looking at and treating the Prime Minister with renewed respect. And Britain's America-haters, who in the past cheered what they saw as the death of the special relationship, have taken to their columns to denounce the renewed friendship with an America that starts wars, kills innocent civilians, imprisons terrorists, and commits other terrible acts, including most notably remaining an ally of Israel.

Perhaps equally important, Ambassador Westmacott is lucky: Obama has to be in as good a mood as he has been in months, and not only because his potential Republican opponents continue

their efforts to destroy one another. Every new economic report and development signals continued recovery:

- Share prices are breaking records, improving household balance sheets and soothing the Wall Streeters whose feathers the President has ruffled with attacks on fat cat bankers.
- The jobs market is improving.
- Exports are booming, especially from farmers in states important to the President's re-election prospects.
- The auto companies that Obama claims to have saved by bailing them out are selling more vehicles than they ever hoped to sell at this stage of the recovery.
- Retail sales increased in February at the fastest rate in five months.
- American households and corporations have deleveraged -- cut their debt burden -- substantially.
- Almost alone among the countries surveyed by Markit, new orders are rising in both America's

manufacturing and service sectors.

- Almost all of the major banks passed new Federal Reserve stress tests that assumed a downturn that would take the unemployment rate to 13%, are now free to pay dividends or buy back their shares, and can continue the recent increase in lending to small businesses. Score one for bank bailouts, new regulations and any other thing the President chooses to cite as one of his achievements.

Even the cautious monetary policy gurus at the Federal Reserve Board are becoming a bit more optimistic. Like the church fathers who deemed it important to count the number of angels that dance on the head of a pin, the wise men of the Fed are given to fine distinctions. After a day-long meeting, they raised their forecast of US growth from "modest" to "moderate", whatever that means.

Even more important for Obama is that despite becoming a bit more bullish at last week's meeting the monetary policy committee did not announce any change in the Fed's policy of keeping

interest rates low until at least late 2014. So the President need not fear the fate of George H. W. Bush, whose re-election bid was damaged by a recession, triggered in part by a Fed decision to raise interest rates. Once the election is over, and if the politicians cannot tighten fiscal policy by attacking the deficit, the markets will take over, and the Fed might prove unable to prevent a rise in interest rates demanded by purchasers of the continued flood of Treasury paper. Indeed, one more good jobs report might set just a rate increase in train.

When two working politicians get together in a mutual help pact -- which is what the President and the Prime Minister did in their version of Lean on Me -- the small matter of differences on economic policy is dwarfed by the greater need for a show of harmony, a rule to which only meetings between Israel's Prime Minister Benjamin Netanyahu and Barack Obama are the exceptions. Cameron has held tenaciously to the view that the way to cope with excessive deficits is a dose of austerity, even if that means hard times during the climb to the broad sunlit uplands in which living standards rise; the

President prefers borrow-and-spend stimulus with deficits to be attended to at some later, unspecified date. In this dispute the President and Labour shadow chancellor Ed Balls are in agreement that the austerity imposed on southern European countries by Germany -- oops, Brussels -- is self-defeating, while the Tory chancellor and Prime Minister side with Republicans who call for spending and deficit cuts -- now. It is not known whether David Cameron was invited to address a Tea Party rally on this subject -- he would have received wild applause -- but if so he chose to please his host by turning it down in favor of a hot dog and a basketball game -- one of the sloppiest this writer, an aficionado of the sport, has ever seen. The President noticed and commented on the poor shooting; the Prime Minister, less tutored in the art of slam dunks and fast breaks, enjoyed the show and promised the President an explanation of cricket.

The President is too clever not to allow ticking time bombs to temper his joy. Polls show that high gasoline prices are putting a big dent in Obama's popularity ratings, not to mention the economic

outlook. Economists at Credit Suisse estimate that every one-cent increase in the price of a gallon of gasoline reduces what consumers have to spend on other products by \$1 billion. That means that the recent price jump will force consumers to redirect about 1% of their retail purchases to gasoline from clothes, appliances and other products. That won't devastate the economy, especially since about half the impact on households heating with natural gas was offset by falling prices of that fuel, but the fact that gasoline is a frequently repeated purchase, with its price blazoned on large signs at over 100,000 gas stations, makes this particular price increase more noticeable than most others.

Obama undoubtedly can hear another bomb ticking, this one in his left ear. Nobel prize-winning economists Joseph Stiglitz and Paul Krugman, the latter a much-read columnist in the Obama-supporting New York Times, are adding their voices to those of Robert Reich, Clinton's labor secretary, criticizing the President for doing too little, too late. Stiglitz estimates that at the current rate of job creation it will take America 13 years to reach full employment. News such as this

just might prompt some of the voters who supported Obama in 2008 to sit this election out, or at minimum reduce the ardor of some of the young foot soldiers who now find themselves having completed college but unable to find the sort of jobs they hoped an Obama administration would have waiting for them.

Still, it has been a good week for the President, and for his distinguished guest. No Churchill-Roosevelt, no Thatcher-Reagan, but announcement of the death of the special relationship has proved to be premature.