Obama Bows to Japan's Emperor, Snubs Adam Smith: Caroline Baum

Commentary by Caroline Baum

Nov. 18 (Bloomberg) -- Every morning I'm confronted with more evidence that the world has gone mad.

Let's start with last week's attention-grabbing **headline** in the Wall Street Journal: "White House Aims to Cut Deficit with TARP Cash."

The White House, we are told, won't be using about $200 billion of the $700 billion authorized under the Treasury's Troubled Asset Relief Program, a lifeline for ailing banks. Instead it plans to use money never borrowed, never spent, that nonetheless increased the projected 2010 deficit, to narrow that **projection** of $1.4 trillion, according to a Congressional Budget Office estimate.

This un-borrowed, un-spent money qualifies as deficit reduction?

Over the years, politicians have used all kinds of accounting gimmickry -- shifting spending forward, anticipating savings that never materialize -- to create the appearance of fiscal discipline. At a time when **entitlement spending** threatens to bankrupt the U.S. -- even before the enactment of universal health care -- this qualifies for the much-ado-about-nothing award.

At the same time I was digesting President **Barack Obama's** plans to reduce the **deficit**, he was heading off to Asia, triggering an outpouring of old, recycled, discredited ideas about trade.

High Road

First, Treasury Secretary **Tim Geithner** took it upon himself to outline "The Road Ahead for Asia's Economies" in a Nov. 11 Wall Street Journal **op-ed**.

For Asia's emerging economies, Geithner's high road entails strengthening "their social safety nets through sustainable health and retirement-benefit schemes, thus reducing the need for high precautionary saving that contributes to global imbalances."

I'm glad he used the word "sustainable," because the U.S.-style Ponzi scheme known as the **Social Security** Trust Fund is anything but. Taxes on today's workers provide the benefits for today's retirees. There is no saving, no trust fund and very little trust that there will be anything left when younger generations retire.

Throw in Medicare, and the two programs have an **unfunded liability** -- the difference between the benefits promised to current and future retirees and the money received from taxes and premiums -- of $107 trillion in today's dollars, according to the National Center for Policy Analysis, a public policy research group.

Central Planners

Geithner seems to be recommending a fully funded retirement plan, in which case government savings substitute for private savings, leaving national savings unchanged.

Which brings us to trade. Government officials sound like global central planners when they prescribe the cure for imbalances: China needs to save less, the U.S. needs to save more -- except not in the short run because it will curb economic growth.

What's too much? How much is too little?

Maybe the U.S. should get its own house in order before it starts advising other countries on how to run theirs.

China practices **mercantilism**, a policy designed to protect domestic producers from import competition and promote **exports**. I've never understood why it's a good thing to use scarce resources to produce goods for someone else. In fact, I thought **Adam Smith** and **David Ricardo** put the myth that imports are bad and exports are good to rest 200 years ago!

Along comes a crisis, and enlightened concepts such as **comparative advantage** and **rational self-interest** are sacrificed in the mistaken belief that exports are the key to economic and job growth.

More for Less

Earlier this month, Obama signed on, telling his Economic Advisory Recovery Board to come up with a new "**post-bubble growth model**," focused on **exports**.

"For most of our first century as a nation, Americans imported more merchandise from the rest of the world than we exported," writes **Dan Griswold**, director of the Cato Institute's Center for Trade Policy Studies, in a new **book**: "Mad About Trade: Why Main Street America Should Embrace Globalization."

Somehow the U.S. managed to thrive. It had plenty of land and labor, yet it needed capital, which it borrowed from abroad to build roads, bridges, canals and eventually a continental railroad. What the U.S. lacked in domestic savings it offered in profitable investment opportunities.

Contrary to popular wisdom, "surrendering more goods for less in return is not the road to wealth," Griswold says.

That Symbolic Bow

When Obama bowed to **Emperor Akihito** of Japan on arriving at the Imperial Palace in Tokyo Saturday, it was both a controversial and a symbolic gesture defining the U.S-Asia relationship.

As the **New York Times** put it on Sunday, "It is a long way from the days when President **George W. Bush** hectored China about currency manipulation."

With cup in hand extended to its lenders, the U.S. presumably can't pressure China to move to a more flexible currency regime. (China pegs the yuan to the dollar.)

Maybe its soaring money supply will. The People's Bank of China prints yuan to buy dollars to maintain the peg. With China's **M2** growing 30 percent year-over-year, the risk of inflation and/or asset bubbles is greater there than here.

Last but not least, I read Obama will hold a jobs summit next month. I guess the claim of 640,000 "jobs created or saved" as a result of this year's $787 billion stimulus isn't selling so well.

Made-Up Numbers

A Boston Globe **study** found those numbers to be "wildly exaggerated" with "so many errors, missing data, or estimates instead of actual job counts" as to be virtually useless. Earlier, the **Associated Press** found similar flaws.

While the government can always hire people to dig up and repave roads -- isn't it doing that already? -- a jobs summit creates the appearance the government is doing something.

Besides, if you're looking to name a jobs czar, there's no better place than a jobs summit.

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