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How safe is the U.S. safe haven?

Keep, ancient lands, your IOUs. Give me your euros, your investments yearning to be safe. Send these to me.

This version of the glorious sonnet composed by Emma Lazarus in 1883, and later engraved on a bronze plaque installed on the Statue of Liberty, calling the world's huddled masses to our shores, captures what it means these days to be a safe haven. Just as America proved to be such a safe haven for immigrants in the latter 19th and early 20th centuries, it is now seen as a safe haven for wealth attempting to escape Europe's tax collectors and financial chaos and recession in Europe, and for foreign central banks newly enamored of the dollar.

America, of course, is not the only safe haven, safety being a relative term. Rich Italians, Greeks and Spaniards are pouring hundreds of millions of euros into pound-denominated properties in London. Other nervous Europeans are taking their euros to Germany, the Netherlands or Switzerland.

John Makin, a resident scholar at the American Enterprise Institute, notes that "investors are so desperate for safety that they are willing to accept virtual zero returns on 'safe' (U.S., German) short-term sovereign notes…". With so much capital flowing into super-safe Treasury IOUs, interest rates on US ten-year bonds have fallen to only 1.5%, half what they were a year ago. In real terms (adjusting for inflation), yields are negative.

So just how safe is the American safe haven? Much safer than almost any other place, but not quite as safe a haven as it appears. The nonpartisan Congressional Budget Office warned last week that absent drastic changes in policy a politically grid-locked America will see its debt climbing to an unsustainable, Grecian, 200% of GDP within 25 years. It doesn't take much to imagine that along the way to the inevitable inflationary spurt the Federal Reserve Board would print a new supply of dollars sufficiently large to drive down the value of the greenback and the real value of any income from investments here.

Lest you think this impossible mark the words of Chris DeMuth, a colleague of mine at the Hudson Institute. DeMuth pointed out to a dinner group convened by the Legatum Institute, a London think tank, that debt has become the tool politicians use to placate voters here and now, leaving the not-so-trivial problem of future repayment to their successors. Unless some institutional changes are made that hold these politicians to account for their spending decisions, they will continue to overload the national credit card. And no such effective institution has yet been devised by any democratic government, unless you believe that a balanced budget amendment to the constitution, such as those in Spain and Italy, will do the trick. If you do, I have a bridge in Brooklyn that I would like to sell you.

There is worse. Hopes that economic growth will provide the increase in tax revenues needed to cut the deficit are fading. Harvard economist Robert Barro points out in The Wall Street Journal that growth is so sluggish that “it is not a recovery at all.” Growth is now less than 2%, and even that figure is seen as threatened by the problems in Europe, slowdowns in China and Brazil, and uncertainty over the direction of policy in the US.

Businessmen are crying out for certainty, but administration economists with whom I have spoken deny that uncertainty is a factor retarding the recovery. Odd, that, for liberal Democrats. Over 50 years ago, President Lyndon Johnson, he of the liberal wing of the Democratic Party and the creator of the largest expansion of the welfare state since Franklin Roosevelt's New Deal, proposed to congress that it get the economy moving by cutting spending and lowering taxes -- in a sense a Tea Party precursor. Cut spending and taxes right now, he urged, to eliminate uncertainty.

This left-leaning President delivered a State of the Union message that argued, “The most damaging and devastating thing you do to any businessman in America is to keep him in doubt and to keep him guessing on what our tax policy is.” Add guessing as to health care costs and from many businessmen’s point of view you have a recipe for inaction, for not expanding staff. Tenured academic economists might think businessmen don’t need certainty, but then they are not the best judges of what makes risk takers run.

The good news is that neither the current sluggish recovery, nor the possibility that seekers-after financial safety will find their investments less well treated in this safe haven than they are hoping, is preordained. Man made the problems we face, man can solve them -- with a bit of help from German chancellor Angela Merkel and International Monetary Fund director Christine Lagarde. Alas, the powers-that-be seem to lack a sense of urgency.

In America, Federal Reserve Board chairman Ben Bernanke and his colleagues are waiting for the fog to lift from their crystal balls, even though vice-chairman Janet Yellen concedes that “several serious headwinds [are] facing the US economy.” And what passes for the nation’s political leadership remains paralyzed until after the November elections, if not longer.

In Europe, the eurocracy remains locked in doctrinal disputes about the efficacy of austerity and stimulus, with Germany calling for the former and most of its eurozone colleagues pleading for increased German financial help to their economies, a position not helped by the decision of France’s new president, François Hollande, to lower the retirement age of many French workers to age 60, reversing his predecessor’s reform of the pension system that included raising the retirement age to 62. The added pension costs will be covered by an as-yet unspecified tax on “the rich”, many of whom are hunting for flats in London and New York. German workers, to remain in harness until 65-67 years of age, are unlikely to find it reasonable to be asked to subsidize the pensions of younger French ones.

All eyes are now on next week’s gathering of the G20 leaders in Cabo, Mexico. Don’t expect much. Mrs. Merkel is in no position politically to do more than a little, and she has already given the back of her hand to British Prime Minister David Cameron’s plea that she fund immediate crisis measures. Meanwhile, America’s sad tale of deficits as far ahead as the eye can see makes it unlikely to get more than a polite hearing -- if that -- for its preachments on the advantages of a new stimulus. There seems to be no one on the horizon who can lead the leaders to the promised land of sustained growth.

All is not gloom, however. Most regions are still growing, even if only moderately, the important housing sector seems finally ready for release from intensive care, and with the average age of automobiles now on the road around 11 years, vehicle sales should continue to remain more than satisfactory.