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Bush Warns Against `Too Much' Government in Markets (Update2)

By Simon Kennedy and Holly Rosenkrantz

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Nov. 13 (Bloomberg) -- President **George W. Bush** today urged leaders of the world's biggest economies not to abandon free- market capitalism as they seek an escape from the financial crisis, calling it the ``best system'' for delivering growth.

In a speech at the Manhattan Institute in New York before weekend talks among leaders from the **Group of 20** nations, Bush said policy makers should resist the urge to meddle too much in markets as they seek to reverse the financial and economic turmoil now engulfing the world.

``History has shown that the greater threat to economic prosperity is not too little government involvement in the market, but too much,'' Bush said. ``Our aim should not be more government, it should be smarter government.''

G-20 leaders including Australian Prime Minister **Kevin Rudd** and French President **Nicolas Sarkozy** have used the crisis to demand greater government control of markets and to attack the U.S. for failing to rein in investors and speculators. Under debate are proposals ranging from curbing executive pay and restraining hedge funds to raising capital requirements for banks and subjecting credit rating companies to stiffer oversight.

``In recent years, investors could, broadly speaking, ignore the role of government when thinking about markets,'' said **Alex Patelis**, chief international economist at Merrill Lynch & Co. in London. ``That period is now over.''

Common Standards

Bush today said the G-20 leaders will consider pushing common standards for accounting, improving oversight of financial-market instruments such as credit default swaps and better protecting investors against fraud. He said ways will be sought to coordinate market regulations across borders and to hand emerging markets more power within the International Monetary Fund and World Bank.

``The answer is not to try to reinvent that system,'' Bush said. ``It is to fix the problems we face, make the reforms we need, and move forward with the free market system.''

The G-20 leaders, who oversee close to 90 percent of global gross domestic product, will begin their summit in Washington tomorrow. The Organization for Economic Cooperation and Development today predicted the economy of its 30 rich member nations will contract 0.3 percent next year.

Backing Bailouts

For all his defense of markets, Bush this year extended the reach of government by backing bailouts of **American International Group Inc.**, Bear Stearns Cos., Fannie Mae and Freddie Mac. His administration is also implementing a $700 billion financial rescue program which U.S. Treasury Secretary **Henry Paulson** yesterday shifted toward relieving pressure on consumer credit, scrapping an effort to buy devalued mortgage assets.

Still, Bush argued today that government intervention isn't a ``cure-all'' and that the crisis was caused by failures among investors, regulators and governments rather than the free-market model. He said steps taken so far by governments and central banks were thawing credit markets and stabilizing financial conditions, although he acknowledged ``more difficult days ahead.''

Officials overseas have heaped blame on the U.S. and the notion of unfettered markets promoted by Bush for

sparking the turbulence.

`Greed, Mismanagement'

German Chancellor **Angela Merkel** last month attacked ``greed, speculation and mismanagement'' and today called on counterparts to agree an end to ``blind spots'' in the financial system. Rudd said ``the root of this malaise'' lay in the ``twin evils'' of greed and fear that went unchecked because of ``obscene'' failures in oversight.

While defending capitalism as the ``most efficient system ever created,'' Sarkozy has described as ``over'' the view that ``everything could be solved by deregulation, free competition and the market.'' The French president said today he will argue the dollar ``can't claim to be the only currency of the world anymore.''

Differences over how to respond to the crisis -- and the coming end of Bush's administration -- have officials and analysts suggesting the summit may not deliver much in the way of policies to strengthen markets and reinvigorate the global economy.

``There should be no heightened expectations,'' Russian President **Dmitry Medvedev** said today in Cannes, France.

Pushing Back

In a sign the administration doesn't accept full responsibility for the world's woes, Bush noted European countries ``still experienced problems'' even with tougher regulations. Paulson said yesterday that a ``lack of consumption and accumulation of reserves in Asia and oil-exporting countries and structural issues in Europe'' also hurt the global economy.

Bush administration officials yesterday played down the divisions and predicted the G-20 will take specific steps to combat the financial crisis and its economic fallout.

``We are expecting an important and vigorous discussion with some quite concrete results,'' Bush's international economics adviser **Dan Price** told reporters in Washington. ``There is a lot more common ground among countries who will be around the table than the rhetoric might suggest.''

With Bush leaving office in little more than two months and the issue of regulation too complicated to be addressed in 24 hours, G-20 officials are signaling more talks are likely soon after President-elect **Barack Obama** is inaugurated. Bush said the summit will be the first in a series of meetings.

``This crisis did not develop overnight, and it will not be solved overnight,'' Bush said.

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