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## Euro-zone song is an ode to indecision

- By IRWIN STELZER



"First you say you do, and then you don't,/"

"And then you say you will and then you won't;/"

"You're undecided now, so what are you gonna do?"

That tune, "Undecided," written more than 60 years before the euro was launched, should be the theme song of the eurocracy. It certainly is a better description of the state of play than the official EU anthem, "Ode To Joy." For of joy there is very little in the euro zone, and of indecision there is a plenitude.



Associated Press

If euroland was OPEC then Angela Merkel's Germany would be Saudi Arabia.

We know only this about next year. There will be a permanent bailout fund to replace the current rescue system when it expires in 2013, and creditors will be forced to take losses, although under what

circumstances remains unspecified. But the structure of the fund, its size, how it will be administered and other "details" remain unknown. Indeed, first the euroland leaders say they will do anything to save the euro, then they say they won't expand the current bailout fund or tell us how they plan to get to 2013. And if there is anything markets abhor, right up there on its hate-scale with insolvency, is uncertainty. Which is what is generated by the collapse of a cartel.

Cartels often collapse for one of two reasons. Or both. Market forces intrude, and put irresistible pressure on the course of action agreed by the cartelists. Or the cartelists fall out over which members should bear the cost of maintaining the cartel. The cartel to maintain the euroland common currency is under pressure from both sources.

In order to maintain the euro, the euroland cartelists have to maintain the price charged their members for borrowing money, the interest rate, keeping it low enough to make money affordable to each member. If that price gets too high, members will peel off, and go their separate ways. So when Greece and Ireland couldn't raise money at a price they deemed bearable, their fellow-cartelists made funds available lest those troubled countries seek the exits, or take steps—default dared whisper its name—that would in the end bring down the entire cartel structure.

Germany and other more flush countries offered their stronger balance sheets as support for the needy cartel members, and a potentially central player in the cartel, the European Central Bank, bought up IOUs to maintain their prices, and thereby keep interest rates down. So far, so good.

Enter the markets. Investors continue to bet that the cartel cannot turn the sow's ears that are the balance sheets of the PIGS into silk purses that investors will want to buy, as Spain found out last week when it had to pay 5.485% to unload €1.782 billion (\$2.35 billion) in one-year bonds. That's 18% higher than it paid only one month ago. Investors know that there is not enough cash in the various bailout funds to prevent Spain from defaulting, that whatever happens in the future German Chancellor Angela Merkel will insist that investors get crew cuts, and that euro-zone countries will have to raise \$2 trillion in debt in the coming year.

At which point cartel enemy number two makes its presence felt. The members begin to squabble, just as members of the OPEC oil cartel occasionally squabble over production quotas or the prices to be set before bowing to the wishes of Saudi Arabia.

In this regard Germany is the Saudi Arabia of euroland. The Saudis win because they have the most oil; the Germans win because they have the most money. When almost all of the other countries in euroland opposed reopening the Lisbon Treaty to legitimize further bailout efforts, Germany said reopen it or we won't play. It will be reopened. Jean-Claude Juncker and Giulio Tremonti, respectively Luxembourg's prime minister and chairman of the euro-zone finance ministers, and Italy's finance minister, called for issuance of an E-bond so that the euro zone could borrow on the strength of Germany's balance sheet and hand the proceeds over to whatever countries succeed Greece and Ireland as international financial pariahs. Cartelist-in-chief Ms. Merkel's "nein" counted for a lot more than Belgium's "oui," or "ja" or any other of the several languages that divide this tiny semi-nation, or Italy's or Spain's "si," or Portugal's "sim."

The squabbling has advanced from low-decibel sniping to high-decibel policy disputes. Olli Rehn, the EU's commissioner for economic and monetary affairs, finds the E-bond idea "intellectually attractive." Ms. Merkel does not, perhaps because mere talk of such a step has already raised Germany's borrowing costs and left portions of a recent offer of two-year bonds unbought, because it might violate the German constitution, and because it is, she says, "illegal" under the Lisbon Treaty. To which Mr. Juncker responds that Germany is "erecting taboo areas" and is "not even considering the ideas proposed by other people."

Not true, retorts German government spokesman Steffen Seibert. We studied Mr. Juncker's idea "with great care" before rejecting it. Ouch.

Two developments are making matters worse. Ms. Merkel is having difficulty explaining to voters just why German taxpayers, who for many years denied themselves real wage increases so as to increase their ability to compete in world markets, should finance partying cartel members.

Second, just when euro-zone governments will be trying to peddle \$2 trillion in sovereign bonds, their banks will be trying to refinance about \$1.4 trillion of debt by selling long-term bonds. All these IOUs to be sold to confused and nervous investors who want to know from policy makers, "What are you gonna do?"

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