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- AUGUST 23, 2010

Global Shivers Mean That Nobody Escapes the Worsening Economic Cold

• By IRWIN STELZER



The U.S. economy grows smartly—at an annual rate of 5.6% in the last quarter of last year—but when the final figures are in America will have recorded a growth rate of less than 2% in the most recent quarter. Meanwhile, in that recent quarter Germany grew at an annual rate of close to 9%, and powered the euro-zone annual growth rate to almost 4%. But in part because America has now slowed, the Bundesbank and other experts are forecasting much lower growth rates in the second half of the year. In short, America spurts, Europe slows, so America slows; Europe spurts, America slows, so Europe slows. Coincidence? Not likely.

It is no longer true, if ever it was, that what happens in the U.S. stays in the U.S., or indeed that what happens in the E.U. stays in the E.U. When it seemed certain that America was finally on the path to sustained growth one of the factors that rattled nerves was the financial crisis in Greece, which triggered concern about Spain, Portugal, Ireland and, to a lesser extent, Italy. American bankers took a harder look at the IOUs on their books, especially those affected either directly or indirectly by sovereign debt, and became increasingly squeamish about lending to European banks that might get caught in a series of sovereign debt defaults. The dollar rose in response to a typical flight to safety, putting something of a crimp into the prospects of American exporters and President Obama's plan to have exports create millions of jobs. All of this added to the already-unsettled case of nerves that has U.S. companies hoarding \$2 trillion in cash, and contributed to a slowing of the American economy.



Bloomberg News

Axel Weber's musings drove the euro down a percentage point.

As it became clear last week that joblessness and a weak housing sector would hurt the important American market, European investors caught the things-can-only-get-worse fever that is gripping the American business community, as did Europe's consumers. Germans never had much taste for consumption just for the satisfying fun of it, while French consumers are made cautious by slow job growth, the possibility that their welfare state might not be so sumptuous in the future, and their government's downward revision of expected 2011 growth. And, of course, consumers in the Club Med countries and in Ireland have empty wallets—or (think Britain) wallets soon to be turned over more completely to their governments in the form of higher income, wealth and consumption taxes, with France a notable exception.

The effect of America catching cold when Europe sneezes, and vice versa—some call the disease "coupling"—is magnified by the decision of the Chinese regime to rein in growth after injecting a stimulus of approximately 14% of GDP, in the hope of preventing the country's property bubble from bursting.

The twin slowdowns in the U.S. and the euro zone explain the intense reaction to the statement by Axel Weber, president of the Bundesbank and a candidate to succeed Jean-Claude Trichet as head of the European Central Bank in October of next year when Mr. Trichet's non-renewable eight-year term expires. Mr. Weber told Bloomberg television that in his view the ECB would be well advised to meet all the loan requirements of Europe's banks into 2011, a statement that surely reflects continuing uncertainty in Germany, the euro-zone bailer-in-chief, as to the ability of many banks to raise capital at acceptable rates in the market.

When the televised musing of the head of the Bundesbank can drive the euro down a full percentage point against the dollar, and trigger a widening of the spreads over bunds that the markets are exacting from euro-zone countries in order to make funds available, it is safe to conclude that the worriers outnumber the optimists. The Economist Intelligence Unit points out in its latest survey that euro-zone and UK banks will have to refinance about £3.3 trillion of debt by 2015. It adds, "Many of the region's banks remain fragile and, to a greater extent than their US peers, vulnerable to funding constraints as a result of their dependence on the wholesale markets."

Which is only one reason German economists are predicting a slowdown in their economy and, therefore, in the euro zone as a whole. The EIU guesses that euro-zone growth will come to only 0.9% next year, and never get higher than 1.7% in the next three years. That might prove a bit optimistic. In the euro zone's future is a default (aka restructuring) by Greece, and/or riots as the unemployment rate rises to somewhere between 15% and 20%; the ripple—no, tsunami-like—effects on other countries and the world financial system of such a Greek tragedy; growth-stifling austerity everywhere; continued imbalances between Germany's export machine and the rest of the euro zone; and tight lending conditions.

Have a nice week.

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