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## Statistics Don't Help in the Battle Between Stimulus and Austerity

- By IRWIN STELZER



The problem of sorting out the news from euroland is highlighted by reports from Spain, one of the so-called peripheral economies. The Instituto Nacional de Estadística reports that the jobless rate declined to 19.8% in October from 20.9% in September. Sounds like good news, except for the fact that the number of jobless increased by over 68,000, or almost 2%, to over four million. To confuse matters further, adjust for seasonal factors—joblessness typically increases in September and October as the tourist season winds down—and the 68,000 increase in jobless claims becomes an almost 10,000 decrease.

Rather than trying to parse all of this, concentrate on two revealing developments in Spain. The first is that the annual growth rate of well under 1% is too low to create many, if any, jobs. The second is that growth will most likely grind to a halt, or turn negative as the increase in the value-added tax and other austerity measures bite. Indeed, Markit reports that in October business activity in Spain fell for the second consecutive month, and new manufacturing orders continued to fall.

Which provides fuel for the continuing policy controversy over just what these periphery economies need to do to get their deficits and unemployment rates down, and their economic growth rates up. The eurocracy is not buying into the Fed's approach: print more money, some \$600 billion over the next eight months. The Fed is "clueless... [and] is increasing uncertainty in the global economy," announced

Germany's Finance Minister Wolfgang Schäuble, reinforcing the European Central Bank view that the road to prosperity is through a period of austerity, which ECB president Jean-Claude Trichet is convinced will eventually bring the euro-area unemployment rate down from its 10.1% level.

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Germany's Finance Minister Wolfgang Schäuble described the Fed as 'clueless.'

Indeed, even as the premiums paid by the troubled periphery countries rose—to 5.31 percentage points over bunds in the case of Ireland—Mr. Trichet refused to make any significant purchases of their bonds. Spending cuts and tax rises, rather than support for periphery country bonds, is the ECB's prescription for what ails Greece, Portugal and Ireland, among others.

And should Mr. Trichet waver in his belief, there is always his putative successor, Axel Weber, president of the Bundesbank calling for even tighter money, which public dissent might queer his chances of succeeding Mr. Trichet. The French are believed to prefer Mario Draghi, governor of the Bank of Italy and chairman of the Basel-based Financial Stability Board, his prior affiliation with Goldman Sachs notwithstanding.

The predictable result of this policy divergence between the Fed and the ECB is a rise in the euro relative to the dollar—15% since June. Bad news for euro-zone exporters and for any export-led growth strategy EU policy makers might have in mind. Worse, this comes on the heels of reports of a slowdown in the already anemic growth of the euro zone. Retail sales have dropped for two consecutive months

and Markit reports that "the recovery in the euro zone private sector lost further impetus at the start of the final quarter" of this year.

Like all policy disputes, this one—stimulus vs. austerity—in the end cannot be resolved by relying entirely on economic data. Yes, Greece, Ireland, Spain and Portugal, bound by the ECB to cut spending and raise taxes, do not seem to be improving their economies, or meeting deficit reduction targets. Greece, for one, will run a deficit of 8.9% of GDP, higher than its promised target of 8.1%. But Germany, the leading economy of Europe and the principal proponent, although not always the faithful practitioner, of tight monetary and fiscal policy, continues to grow, albeit at a slowing rate. Unemployment is down, exports are up, and Germany is more convinced than ever that it has got its budget-balancing policy right. Two austere countries, Greece (involuntarily) and Germany (a matter of conviction), two different performances.

It seems that austerity might not be a one-size-fits-all panacea, any more than the interest rate set by the ECB for all euro-zone countries suits them all. For countries with deficits so large that they are effectively excluded from international markets, spending cuts might—only might—be counter-productive. So several leading American economists claim as they retrieve John Maynard Keynes from the intellectual scrapheap on which his reputation was deposited before the current financial crisis and recession.

Investors, already demanding double-digit returns from periphery countries, are not only uncertain about the efficacy of the austerity plans imposed on those countries. They are now even more rattled as the process that dared not speak its name—default or, more politely, restructuring—resurfaces in conversations from Athens to Dublin and, worse still, in Berlin where Chancellor Angela Merkel is pressing for a bailout system that includes haircuts from private investors. For periphery-country creditors, the worst might just be yet to come.

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