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Take Euroland Boasting With a Pinch of Disaggregation

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Disaggregate. Feel somehow unsoothed by reports that total crime has fallen? Disaggregate. You might find that total crime is down because car thefts have dropped sharply while violent muggings are on the rise, but not as rapidly as car thefts have fallen. So it is reasonable to avoid a dark street in the evening. Feel financially pressed by the lack of a salary increase even though the overall consumer price index is stable?

Disaggregate. You might find that the price of electronic goods bought by youngsters has dropped sharply while food and drug prices have risen, but not quite as much. So don't expect to feel any better off when you go to the supermarket.

So with euroland. Take a bit of satisfaction in the fact that the overall euro-zone economy is showing strength, and that this modest growth seems set to continue in 2011, at a rate of 1.4% say economists at [Citigroup Global Markets](#), or 1.9% if you prefer the crystal ball gazers at [Goldman Sachs](#), who believe "The recovery is progressing nicely for the euro zone as a whole." To which Jean-Claude Trichet, head of the European Central Bank, adds that the overall euro-zone budget deficit comes to 6.3% of its GDP, compared to what he says is 11.3% in the U.S. and 9.6% in Japan. Why worry?

Disaggregate the figures for the euro zone and you find a far more significant story. Germany is growing and Spain is not, France is doing far better than Greece and Portugal but not as well as Germany, unemployment in Germany is 25% lower than in the euro zone as a whole, and half the rate in Spain. As for Mr. Trichet's boast about the low euro-zone deficit, take it with a pinch of disaggregation, lest you forget the double-digit deficits that brought Greece and Ireland down.

It is unlikely that the aggregate data will bring joy to the citizens of Greece, Ireland, Spain and Portugal as they watch their living standards decline as taxes rise and benefits are cut. Rising growth in Germany won't buy much ouzo in Athens, Rioja in the tapas bars of Madrid, or Guinness in the pubs of Dublin. Unless, of course, policy makers figure out how to make the aggregate good news relevant to stricken countries on the periphery of the euro zone. Which is what they have set about doing in a triumph for those who have always seen the euro as merely a first step on the road to a federal Europe, with control of both monetary and fiscal policy in the hands of euroland institutions rather than individual nation states.

Euro-zone finance ministers have agreed to establish a Euro-zone Stability Mechanism (ESM), to replace existing loan and support facilities in 2013. According to Reuters, later this week the leaders of the 27-nation European Union will endorse their ministers' call for a re-opening of the Lisbon Treaty to incorporate in it the ESM, which will apparently cover liquidity needs of any of the 16 euroland countries that have liquidity but not insolvency problems, and only with "strict conditionality."

This latter caveat is inserted presumably to satisfy German chancellor Angela Merkel's insistence that creditors take a haircut as part of any bailout arrangement, and that the Eurocracy impose strict constraints and penalties on the budget deficits of those who rattle the beggar's bowl.

How the troubled euro-zone countries will get from here to 2013 is left unanswered. Which brings us back to the need for disaggregation. The overall growth figures conceal not only the weakness of the periphery countries, but the fact that the euro zone's engine of economic growth, Germany, is losing steam. Meanwhile, starting early in 2011 several euro-zone governments will be trying to persuade investors to buy their bonds just when banks in these countries will need to refinance €1 trillion (\$1.3 trillion) of debt by selling long-term bonds.

Moreover, there will undoubtedly be elections in most of the periphery countries, and current indications are that the governments of Ireland, Spain, Portugal and (possibly) Italy will fall, making those countries' continued acceptance of the current bailout deals less than certain.

The heavy demands on the bond markets, combined with the political uncertainty in peripheral countries, should keep the bond vigilantes on their toes. As should the possibility that a reopening of the Lisbon Treaty, even if only to incorporate the two sentences the finance ministers claim are all

that is needed to establish the ESM, may force some governments to hold referenda on the revised document.

The David Cameron of old —pre-coalition with Lib Dem europhiles, pre-the-seeker-after applause from Paris and Berlin who agreed to an increase in the EU budget—might have been tempted to do just that. And a new Irish government, unhappy with the takeover of its finances by the Eurocracy, might just succumb to a similar temptation. Not likely, but possible. Which is all nervous investors need to accelerate their flight from peripheral euroland.