**Quelle: Wall Street Journal Europe**

© Dow Jones & Company

# Europe's Lance Armstrong Economy

By Josef Joffe

How is the European economy, and the world's, doing in the fifth year of the longest slump since the Great Depression? This is the Big Question of Davos 2013, and the answer comes in the guise of its official motto: "Resilient Dynamism." Around the world today, there is certainly "resilience," but the "dynamism"- solid growth- is missing.

Compared to the World Economic Forums of 2009-12, good news abounds. The euro is rising against the dollar and even, recently, against the mighty Swiss franc. The spreads of Italian and Spanish 10-year bonds have dropped to two and three percentage points above the German bund. The traders who used to attack one "Club Med" country after another remain cowed. Some of them have made zillions on Greek paper.

Mario Draghi, head of the European Central Bank, has carried the day, never mind that he has turned the ECB, against its mandate, into a money-printing Fedon-the-Main. His threat to "do whatever it takes" to save the euro has worked wonders. Central bankers around the world must envy him; the trick doesn't always succeed.

German Chancellor Angela Merkel gets credit, too. Though she bent or broke European compacts left and right- above all the "no bailout" clause of the Maastricht Treaty on monetary union- her "crimes" have paid. And who wants to gripe about success? The Greeks have called off the revolution, and the political center holds from Lisbon to Leipzig.

Pessimism, in previous years as oppressive as the traffic jam on Davos's Promenade just before the party zone starts grooving, has dwindled. Davos's organizers have taken an "experts' opinion" poll, happily reporting that the "confidence index" has crept up from 0.38 to 0.43. Just a bit more, and it will reach the "optimism zone" beckoning beyond the 0.5 mark.

So it's "resilience," all right. But the "dynamics" are less inspiring. Growth in the euro zone has dropped below zero, and the rest of the Western world is not doing much better. Worse- and hats off to Lance Armstrong- the euro zone is pedaling on steroids. These are trillions in liquidity injected by Mr. Draghi, who is being flanked by his colleagues in America, Britain and Japan. Public deficits range from intractable to gargantuan and public debt is rising accordingly.

But why worry? Inflation is as low as the courage of the cowed traders. This friendly news would be a nice tranquilizer if asset inflation were similarly depressed. But it is mounting throughout the world, as the prices of real estate, gold, art and commodities signal.

"Real" inflation will follow once, and if, the "dynamism" of the global economy returns. Spare capacity will dwindle, and with confidence restored, liquidity will morph into buying power. Nor will China, the "factory of the world," help us. Labor costs in the Middle Kingdom are soaring, as they always do when a startup economy moves into maturity. By 2017, Chinese labor costs will reach American levels, the Economist predicts in its latest issue.

As to the euro zone, it takes Nobel laureates in economics to keep prescribing steroids- megadeficits and giga-debts- as panaceas. Alas, these build muscles while imperiling long-term health.

The large crisis countries above all- France, Italy, Spainare not exercising hard enough to restore their economic strength, aka "competitiveness." The issue is not austerity, as stubborn deficits and rising public-debt burdens demonstrate. For Club Med, the real issue is microeconomic reform, which is proceeding only fitfully and hesitantly.

Gemäß §1 Abschn. 3 des Bundesdatenschutzgesetzes vom 21.1.1977 werden personenbezogene Daten ausschließlich für publizistische Zwecke gespeichert und herausgegeben.

Quelle: Wall Street Journal Europe

© Dow Jones & Company

It doesn't take a Ph.D. in the "dismal science" to diagnose the underlying causes of ill health. The most egregious symptom is youth unemployment that runs twice as high as the general rate. Evidently, the problem is a split labor market that protects the happy insiders and excludes the young. This is not "social justice," as a favorite European shibboleth has it. Nor do such enshrined advantages vouchsafe the competitiveness of the Mediterranean economies.

Instead of serving justice, such market barriers kill opportunity by protecting the privileged, skilled and unskilled: taxi guilds, public servants, pharmacists, architects, lawyers. Add big business feeding at the trough of subsidies and tax breaks. Alas, it takes political capital to dismantle such walls, and Mario Draghi can't print that like so many billions of cash.

Democratic governments can generate the political capital needed, as demonstrated by the welfare and labor reforms executed by Bill Clinton, Tony Blair and Gerhard Schroder- Social Democrats all. The Scandinavians have done it too. Just compare today's Sweden with the basket case it was in the 19905.

Let's finally shift from Euroland to Europe as a whole to dramatize the problem a different way. Since 1970, the average annual growth rate in the EU-27 has dropped by about half a percentage point each decade. In the same period, its share of global GDP has shrunk by 10 percentage points.

So much for the longevity of "economic miracles." China enthusiasts, please take note. The same fate has befallen the earlier "dragons": Japan, Taiwan and South Korea.

Steroids, as administered by Drs. Draghi and Merkel, help in the short term- and that is for the good, given Europe's dismal state two or three years ago. They have bought Europe a precious recuperation period while kicking the can of a rigorous health regimen down the road.

But Europe as a whole is limping. If it doesn't put the lull to good use, the steroids will take their toll. Europe, so rich in skills and talents, deserves better than the worst possible outcome: neither "resilient" nor "dynamic." Mr. Joffe is editor of Die Zeit and fellow of the Freeman-Spogli Institute for International Studies and the Hoover Institution, both at Stanford. His new book, "The Myth of American Decline," will be published by W. W. Norton in the fall.

Gemäß §1 Abschn. 3 des Bundesdatenschutzgesetzes vom 21.1.1977 werden personenbezogene Daten ausschließlich für publizistische Zwecke gespeichert und herausgegeben.