# Financial markets rejoice over European Central Bank plan

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Financial markets cheered as European Central Bank President Mario Draghi announced his unlimited bond buying plan, aimed at holding down the borrowing costs of Italy and Spain and preventing a break-up of the euro zone.

Following his comment at the end of July that the ECB would do “whatever it takes” to maintain the euro, financial markets had been eagerly awaiting yesterday’s meeting of the ECB governing council to see what concrete action would be proposed. After it was announced, they celebrated the prospect of hundreds of billions of dollars being pumped into their coffers. Interest rates on Spanish and Italian government bonds fell and the S&P 500 stock index on Wall Street reached its highest point in four years.

While financial markets were “over the moon”, to use the words of the *Financial Times*, the decisions spell further attacks on the living standards of the working class across the continent. Draghi emphasised that that any purchases of bonds under the “outright monetary transactions” program would come with stringent conditions similar to the austerity programs already in force in Greece, Portugal and Ireland.

The ECB will increasingly act as a financial dictator over the euro zone, enforcing ever-deeper cuts in the living standards of the working class to provide funds to financial markets for their speculative activities.

Draghi said the ECB program would address “short-term distortions in financial markets.” His words were carefully chosen because the central bank is prevented from directly funding states. Hence the intervention, which will be unlimited, will be only in the short end of the market through purchases of bonds of one- to three-years duration.

The German Bundesbank has been firmly opposed to the bond-buying program, claiming it is illegal and will bring about inflation. But the decision was adopted by what Draghi called a “massive majority” on the council.

In order to counter claims that the ECB has exceeded its charter, Draghi has insisted that the bond purchases are justified because so-called “convertibility risk” has been priced into the bond markets of Spain and Italy, pushing up interest rates. In other words, the risk of a euro zone break-up elevated interest rates above what they would otherwise be. Therefore, the bond-buying program is not aimed at financing states, but is a necessary measure to preserve the single currency.

However, the Bundesbank has remained unmoved and its representative on the governing council, Bundesbank President Jens Weidmann, issued a series of critical comments immediately after the meeting. He said the German central bank regarded bond purchases as “tantamount to financing governments by printing banknotes” and warned that the ECB interventions carried “the additional danger that the central bank may ultimately redistribute considerable risks among various countries’ taxpayers.” In other words, Germany and financially stronger countries of northern Europe may be forced to bail out financially weaker countries in the south.

The ECB plan has been welcomed as a means of putting the euro zone on a sounder financial footing and bringing stability. But those claims are belied by the fact that the central bank of the leading European economy is opposed to the plan.

In a speech to a closed-session of the European parliament on Monday, Draghi made clear that as far as he was concerned, nothing less than the continuation of the euro was at stake in the ECB decision. He said the bank’s “primary mandate” necessitated intervention in bond markets to wrest back control of interest rates in what was now a “fragmented euro area”. He was pointing to the situation in which ECB decisions have virtually no impact in financially weaker countries, where interest rates are determined in the bond markets.

“Frankly, all this also has to do very much with the continued existence of the euro,” he said. Markets had a perception of a country in crisis, and this meant they asked for higher interest rates on the bonds issued by that country. But this impacted not just government finances, but also corporate and bank bonds, leading to higher rates, which in turn “reinforce the perception of the crisis”. This was the main justification for the ECB to step in and start buying bonds.

No doubt there will be attempts to portray the ECB decisions as a step on the road to economic recovery in Europe. But such assertions are looking increasingly threadbare as millions of people across the continent experience the real impact of government austerity programs that form the core of all financial measures.

Draghi made clear that the austerity measures needed to be continued and deepened. However, such measures set up a vicious circle. By cutting back spending both by governments and workers as a result of increased unemployment and wage-cutting, they reduce tax and other government revenues. This in turn worsens government indebtedness and intensifies the financial crisis.

Moreover, contained within the new policy itself are mechanisms that could set off a new financial crisis and the break-up of the euro zone.

In order to counter criticism from the Bundesbank as well as other sources that the ECB was making an unrestricted commitment to buy the bonds of indebted governments, Draghi insisted any bond-buying would cease if the government concerned failed to comply with austerity directives.

But as was quickly pointed out, such action would only exacerbate any financial crisis. If bond purchases ceased at the same time a government failed to meet its budget deficit targets, interest rates would soar.

While praising Draghi’s measures as an “audacious gamble” and holding out the prospect that they would bring some stability to the euro zone, an editorial in the *Financial Times* drew attention to the implications of “strict and effective conditionality”.

“Mr. Draghi may claim that the ECB will stop buying the bonds of countries which are not compliant with their agreed programs. But doing so after the central bank has stuffed itself with a country’s bonds is like putting a gun to one’s own head and threatening to pull the trigger,” it said.

Far from providing a solution to the euro zone financial crisis, the Draghi plan actually intensifies it by pulling the ECB into the centre of the financial storm.