European Central Bank appears set to introduce quantitative easing

Nick Beams
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The European Central Bank (ECB) appears likely to initiate a program of so-called quantitative easing tomorrow—involving the purchase of government bonds—though its precise form is still the subject of discussion. The main issue at stake is how the measures will be implemented in order to placate opposition from Germany and avoid open divisions on the bank's governing council.

The most likely option at this stage appears to be the purchase of €500 billion worth of sovereign bonds, subject to certain qualifications. According to reports in the financial press, ECB president Mario Draghi has bowed to German demands that no individual country should be responsible for the debts of another.

This means that any sovereign bonds purchased by the ECB would have to be guaranteed by the central bank and the national government concerned. With this proviso in place, it seems the ECB's governing council will adopt the program. German representatives may voice opposition, but not press the point.

The clearest indication came last week in an interview given by Klaas Knot, the head of the Dutch central bank, who has lined up with Germany in expressing scepticism about the merits of bond buying. Knot told the German news magazine *Der Spiegel* that he would support a compromise quantitative easing (QE) plan, in which bonds would be bought by their respective national governments.

"Were each central bank only to buy the papers of its own state, this would lower the danger of there being an undesired redistribution of financial risks," he said.

Under such a plan the German central bank, for example, would not be responsible for any losses incurred on the purchase of bonds of another country.

While this measure may assuage opposition from Germany and northern European countries, it will intensify divisions within the monetary union. Instead of a unified financial market within the euro zone, increasingly there will be two assets classes—those supported by economically stronger members and those of the weaker economies. Instead of financial markets becoming more unified, supposedly one of the aims of the monetary union, they would be more fragmented along national lines.

The official reason for a European QE program, being advanced by ECB president Mario Draghi and others, is to combat deflationary pressures in the euro zone and boost economic growth.

In an editorial earlier this month, the *Financial Times*, the voice of British and international finance capital, cited the 0.2 percent fall in European prices in the year to December and the persistence of "frighteningly low inflation expectations." These made it "more urgent than ever" that the ECB push ahead "with the strongest form of quantitative easing that it can muster."

According to Draghi, who insists that the ECB has a mandate to keep inflation around 2 percent, deflation would send the economy into a downward spiral. The expectation of further price falls would lead to consumers deferring purchasing decisions—waiting for lower prices—and investors becoming unwilling to undertake expansion of production.

These arguments amount to a series of economic fictions. There is no evidence that consumers put off purchasing decisions in anticipation of further price drops. The real reason for falling consumption demand is the suppression of wages, coupled with the creation of mass unemployment—running at more than 11 percent in the euro zone—and the austerity programs being carried out by all European governments.

Investment decisions are not being cut as a result of deflation but because companies consider they cannot make a sufficient rate of return, and may even incur losses, due to depressed market conditions.

Deflation does, however, have economic consequences. Its main effect is to increase the real level of debt and interest payments by banks and investment houses.

According to the proponents of QE, lowering the rate of return on sovereign bonds by pushing up their price through central bank purchases, will push the holders of capital to make riskier investments in the real economy, thereby promoting an economic recovery.

In fact, as the experience of the American QE program shows, the effect of pumping more money into the financial system is to promote further speculation in financial markets. The US Federal Reserve's balance sheet has expanded from around $800 billion in 2008 to more than $4 trillion today. US equity markets are at or near record highs, yet investment in the real economy remains at historically low levels.

Having made vast fortunes out of the US Fed's QE program, financial markets are demanding that it be extended to Europe. The hope that these demands would finally be met, at least in some form, when the ECB meets tomorrow, saw European stocks reach seven-year highs this week.

At first sight, it might appear quite irrational that stock markets should climb to their highest levels since the 2008 eruption of the global financial crisis. After all, they are anticipating a measure which, in and of itself, is the outcome of the worsening economic situation across Europe, characterised by falling demand and historically low investment.

While such a phenomenon may appear to be madness, there is a definite logic to it, which expresses the interests of definite social classes—above all, the financial elites and the super-rich that dominate the global economy. The markets expect that more ultra-cheap money will be made available for financial speculation, thereby increasing the vast fortunes of the ultra-wealthy few.

The social interests behind the demand for a European QE were revealed in the report by Oxfam this week. It noted that in 2014 the richest 1 percent of the world's population owned 48 percent of global wealth and that, on present trends, in two years' time, the top 1 percent would have more wealth than the other 99 percent combined.

Presenting its findings, Oxfam said the year 2010 marked an "inflection point" in a graph showing the increasing share of global wealth going to the top 1 percent. Oxfam did not point to the reasons for the upturn, but they are not hard to find. In that year, the US Fed accelerated its quantitative easing program, and the Bank of England followed suit, pushing up share prices and boosting other financial markets.