Financial markets celebrate European Central Bank launch of €1 trillion quantitative easing program

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The European Central Bank (ECB) committed itself to a quantitative easing (QE) program of at least €1.1 trillion after announcing Thursday that it would buy sovereign debt and other financial assets to the tune of €60 billion a month to September 2016, and possibly beyond.

The decision was announced by ECB President Mario Draghi after a series of negotiations and manoeuvres in recent months aimed at circumventing German opposition to the plan. Bowing to that opposition, Draghi announced that the region's 19 central banks would make 80 percent of the purchases and be responsible for any risks.

The official rationale for the decision is that the QE program is needed to combat deflationary pressures in the euro zone—inflation turned negative last month—and boost the region's economy, which has still not reached the levels of output attained in 2007.

But the measures will have little or no impact on the real economy. Rather, they are aimed at making available further supplies of ultra-cheap cash for financial speculation, while governments across the region press ahead with so-called "structural reforms" to worsen the social position of the working class.

Draghi said the decision had been taken with the aim of lifting inflation rates close to but below 2 percent. But with no evidence QE will have any such impact, the statement amounted to a commitment to open-ended monetary expansion.

The markets celebrated because both the extended time frame and the monthly volume of bond purchases exceeded expectations. Economists had predicted the monthly injection would be €50 billion.

European stocks continued their rise of the last few days, reaching new seven-year highs. In the US, all three major stock indexes rose substantially, with the Dow Jones Industrial Average shooting up 259 points.

The value of the euro fell further, fueling hopes on the continent that the plunging European currency will boost exports.

The mood of the financial speculators, who will benefit to the tune of tens, if not hundreds of billions of dollars as a result of the decision, was summed up by Laurence Fink, the chief executive officer of the massive hedge fund BlackRock. Speaking at the World Economic Forum, the annual gathering of the world's billionaires in Davos, Switzerland, where this year's theme is inequality, he said: "We've seen over the last few years you have to trust in Mario. The market should never, as we have seen now, the market should not doubt Mario."

The decision to begin the QE program was not unanimous. German Bundesbank President Jens Weidmann and Germany's representative on the ECB's executive board, Sabine Lautenschläger, voiced their opposition to the move, with Austrian, Dutch and Estonian central bank governors also reportedly expressing reservations.

Weidmann has called QE "sweet poison," as it lets European governments off the hook when it comes to carrying out debt-reduction programs.

Draghi said the bank's governing council had taken these issues "into account, and that's why this decision will mitigate those concerns." The chief concession to Germany and other critics is that 80 percent of purchases will be carried out by national central banks, which will bear the risks.

The depth of opposition was indicated in a *Financial*

Times report which said that, while paying lip service to ECB independence, "German officials were privately seething… that the bank had decided to embark on QE."

The effect of ECB's concession is to increase national divisions over policy and undermine the principle that the ECB acts in the interests of the euro zone as a whole. In the longer term, it adds to concerns that the entire project of monetary union is inherently unviable and the euro currency itself may collapse.

The *Financial Times* cited one unnamed euro zone finance minister who said "the problem with purchases by national banks is that it sends a signal that the euro zone is not moving in the direction of greater mutualisation of debt, something that will be necessary in the longer term for a successful single currency."

Earlier this month, as it was becoming apparent that concessions would be made to the German position, the governor of the Bank of Italy, Ignazio Visco, opposed the abandonment of risk-sharing. "We would be well advised to maintain the procedures that [are used] in all our monetary policy interventions: risk should be shared across the euro system as a whole," he said.

While making concessions to Germany, Draghi also attempted to assuage concerns that national divisions were being introduced. He said the governing council would retain control "over all the design features of the program and the ECB will coordinate the purchase, thereby safeguarding the singleness of the Eurosystem's monetary policy." However, his remarks could not cover over the divisions that exist and are becoming more open.

Speaking at the Davos meeting, German Chancellor Angela Merkel avoided any direct criticism of Draghi and the ECB, claiming Germany had a tradition of supporting independent central bank decisions. But she made clear that the austerity drive, which her government has promoted across the euro zone, should be deepened. Responding to critics that Germany was promoting austerity for its own sake, rather than growth, Merkel said healthy finances were necessary and debt had to be kept down.

According to a *Financial Times* report, Merkel's message, conveyed both in her speech and in her responses to questions that followed, was that with additional monetary loosening, governments might be tempted to "buy time and avoid doing structural reforms." Merkel said she was not surprised that the ECB decision was regarded as controversial because it allowed uncompetitive companies to survive, at least in the short term.

The national divisions and conflicts reflected in the structure of the European QE program are not confined to that region, but are expressed more broadly. One of the consequences of the decision will be to further depress the value of the euro, already at an 11-year low, sending it closer to parity with the US dollar and consequently worsening the American trade position.

In the past week, central banks in Denmark, Turkey, India, Peru and Canada have announced cuts in interest rates, which will lower the value of their currencies.

The Canadian central bank, which made a surprise decision to cut its rate on overnight loans by 0.25 percentage points on Wednesday—the first such reduction in almost five years—said the sharp fall in oil prices had increased downside risks on inflation and financial stability. An interest rate cut was needed to return the economy to full output, it said.

Since Australia, like Canada, is a commodity-exporting country, the Canadian decision has increased pressure on the Australian central bank to reduce rates.

Together with the QE programs in Europe and Japan, the effect of these measures is to lower the value of the various currencies and apply upward pressure on the US dollar. In effect, this week's decision represents an escalating currency war in which each of the participants tries to offload the effects of deflation onto its rivals.

Yesterday's European QE decision will not bring economic recovery. Instead, it will intensify the deepening global conflict between rival economies.