**Mario Draghi’s Bombshell Is Europe’s Last, Best Hope to Return to Growth**

Jan. 22, 2015

By Neil Irwin

The program to try to jolt the European economy out of its doldrums that Mario Draghi unveiled Thursday is several months late, timid compared with its counterparts in the United States and Japan, and full of complexity aimed at satisfying his political constituents.

It may also be the last, best hope to prevent Western Europe from sliding toward another lost economic decade, with the high unemployment and geopolitical strains that would imply.

The program is bigger than analysts were expecting, and its details show a commitment by the E.C.B. not to bend to political pressure (particularly from Germany) to hold its fire for fear of the monetary authority subsidizing reckless borrowing by Southern European countries. The action was enough to drive European stocks up and the euro currency down, just the market reaction that Mr. Draghi was surely hoping for.

There’s no question that Mr. Draghi showed guile and savvy in guiding a fractious committee of central bankers to a bigger and more aggressive program than seemed plausible even a few weeks ago. The trillion-euro question is whether it will be enough, and that’s where the finer details come into play. The program’s success or failure will depend on whether the compromises needed to gain agreement will prove minor enough not to undermine its goals — and whether they have succeeded in shocking decision makers across Europe into a belief that it is riskier to hoard money than to spend and invest it.

Photo

Traders in Frankfurt watched the news conference at which Mario Draghi, the European Central Bank president, announced the bank's intention to embark on a quantitative easing plan. Credit Ralph Orlowski/Reuters

Mr. Draghi, the president of the European Central Bank, announced plans to buy 60 billion euros’ worth of bonds per month through at least September 2016, which would imply 1.1 trillion euros ($1.3 trillion) in new money injected into the European financial system. The plan is to continue until the central bank’s leaders judge that inflation is returning toward the goal of below but close to 2 percent. For the year ended in December, prices actually fell 0.2 percent in the 19 countries using the euro currency.

At first glance, Mr. Draghi’s plan emulates the Federal Reserve’s QE3 program: the third round of quantitative easing, or bond buying, announced in the United States in September 2012 and which most likely helped the acceleration in the American economy over the last two years. Both programs were open-ended in size, with billions in monthly bond purchases paired with a pledge to continue until some goal is met (for the Fed, it was substantial improvement in the job market, for the European Central Bank, returning inflation toward its target).

There are two big differences.

First, it is late. When the Fed pulled the trigger on its open-ended bond buying, in 2012, annual inflation was running at 1.6 percent in the United States, not far below its 2 percent target. The economy was growing at a steady if unexceptional rate. The Fed was looking to get ahead of its problem of sluggish growth.

The European Central Bank, by contrast, has spent the last two and a half years seemingly looking for any excuse not to take the action announced Thursday, with a series of half-measures. The difference has its roots in differing economic analysis about the dangers of deflation and complex political factors, in particular the aversion of Europe’s central bankers and German political leaders to use the common central bank to share risk among different countries.

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Mario Draghi, the European Central Bank president, said Thursday that the governing council agreed to a quantitative easing program that will see it buy up to 60 billion euros’ worth of bonds. Video by Reuters on Publish Date January 22, 2015. Photo by Kai Pfaffenbach/Reuters.

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The second big difference with the American program is that the E.C.B. is only dabbling with risk-sharing across Europe.

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The European Central Bank in Frankfurt administers its policies through national central banks across the eurozone: the Bundesbank in Germany, the Banca d’Italia in Italy, and so on. A big question has been whether any losses due to government defaults or restructurings on bonds bought through this quantitative easing program would be borne by Europe as a whole or the specific national bank that bought the bonds.

The German government would strongly prefer the risks stay on national books. Why, they reason, should Germany’s central bank pay the bill if Portugal defaults on its obligations?

The problem is that doing this eliminates one of the crucial ways that a central bank can act as guarantor of a nation’s economy. The European Central Bank isn’t much of a lender of last resort if each country within the eurozone is on its own when things turn bad. It would be as if the Federal Reserve system as a whole had refused to stand behind the Federal Reserve Bank of Atlanta when it was making emergency loans to failing banks in Florida during the financial crisis; part of the strength of the system is that the entirety of the United States government, and its central bank, stood behind each component part.

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Mr. Draghi was dismissive of the importance of this risk mutualization debate in his news conference Thursday, but the plan he unveiled shows the hallmarks of an intricate negotiation to have some elements of risk sharing and some risk remaining on the books of individual national banks.

For nearly eight years, since the first tremors of what would become the global financial crisis were felt, global central banks have been the first responders, for better and worse, to a rolling series of panics and disappointing economic results. (The better: They have often moved more decisively and powerfully than elected officials. The worse: Their tools are often ill-suited for the challenges their economies have faced, and created dangerous ripple effects).

Mr. Draghi’s move is firmly within this tradition. We don’t know how it will end, only that he has shown the determination to recognize that the status quo, for Europe and the world, was no good.