Eurozone QE:- Economic necessity triumphs over political idealism

This is not an economics website, so not the place for a debate on the rights and wrongs of Quantitative Easing. However, the political implications of Thursday's announcement by the European Central Bank are worthy of comment.

The announcement of a €1.1 trillion asset purchase programme was made by Mario Draghi, the governor of the European Central Bank, but the process will not be as straightforward as when the UK or the USA launched their QE programmes because only a single nation and a single central bank was involved in those asset purchase schemes.

Under the ECB scheme, only 20% of the asset purchases would be subject to risk-sharing, meaning potential losses could fall on central banks of the Eurozone member states. This is a significant development for the next big step in the evolution of the Eurozone has long been expected to be Eurobonds, where debt was mutualised. There would no longer be any Bunds (German government bonds) or Greek Government bonds for sale, just bonds for the Eurozone as a whole. If the aim of the Euro is to help create a single country – a United Sttes of Eurozone, a common fiscal policy was the next logical step.

It is very apparent that behind the scenes, some serious wrangling has been going on between Draghi and the German government prior to Draghi's announcement. Germany, which has two members on the ECB's governing council has been dragging its feet every inch of the way. Any easing of austerity, it was argued, would let the profligate Southern European countries off the hook. Whenever a country has asked for a bailout, Berlin has insisted on cuts in government spending including drastic reforms to the public sector as one condition of money being loaned. Given that Greek public sector workers have often been able to retire on a good pension in their 50s whereas their German counterparts have to stay on into their 60s, the Germans did have a case, but their intransigence has not gone down well and has resulted in the rise of far-left parties like *Syriza* in Greece and *Podemos* in Spain. However, Germany continued to hold the line even as youth unemployment topped over 50% in these countries and deflation took hold. It has taken a fall in the annual German inflation rate to 0.2% for the Germans to come round to a more conciliatory position.

But today’s measures prove that the willingness to share risk across the single currency area necessary for Eurobonds just isn’t there. Given that *Alternative für Deutschland* would benefit immensely if it was shown that German taxpayers were going to have to shoulder even part of the risk of debt defaults by the “Club Med” governments. Merkel could not afford to give any ground on debt mutualisation.

It is likely that the struggling Eurozone economies will breathe a little more easily after today’s announcement, but the price the EU has had to pay for QE is to kick any sort of fiscal union into the long grass. European integration has taken a step backwards.

And how long with the markets’ euphoria last? Well, let’s see what happens in Greece on Sunday.

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