The Sinister Irreversibility of the Euro

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Draghi's decision to provide unlimited support to short term bonds of those countries who submit their public finances to European control has been greeted with widespread acclaim in Italy.

Albeit necessary to cut the spreads, which had attained unbearable levels, the BCE initiative is by no means decisive and under the current terms risks being couterproductive. For starters, it is politically indigestible for Spain and Italy, who hope in fact to scrape through without subscribing to any austerity "precautionary program" imposed by Europe and policed by the IMF. In other words, they hope that the expectations triggered by the ECB's announcement can do the trick of lowering the spread on their sovereign bonds, even if nothing concrete follows without conditionality constraints. In reality, if nothing happens the spreads are likely to increase, possibly because the markets expect that the bailout will be requested too late. Let's not get carried away by market euphoria. On occasion of the previous ECB interventions, the SMP of 2010-2011 and the two LTRO's, we had the same immediate reactions, only to be wound up after a few weeks. And this time we haven't even had ECB intervention to speak of, just the threat of it and subject to an abstruse mechanism (request for aid by country concerned, signing of an MOU, participation of EFSF/ESM in the bond actions, and at last ECB purchase in the secondary market). It seems highly impractical, save that in the process the applicant country may lose access to the markets.

How much the ECB intends to shrink the spreads is left unknown, however the presumable inadequacy of its "Outright Monetary Transactions" and the hardening of the austerity clauses attached thereto will make it more and more difficult for the applicant countries to comply with the prescribed terms. If the countries do not comply with the objectives agreed-upon, the ECB may withdraw its support, thus sanctioning a possible breakup of the Euro.

A true mess indeed, which renders Draghi's move the umpteenth kicking of the can down the road. Yet, it confirms what heterodox economists (including those subscribing to "Modern Money Theory") have always asserted: Interest rates are determined by central banks, not by the markets. Hence the deduction that the bulk of the fire of the past two years has been set by the ECB itself, subservient to the European élite's diktat that welfare state and trade unions be wiped out by means of a fiscal crisis– first in the periphery, but as a lesson to German unions as well.

Fact is, monetary unions are set up with the primary goal of constraining member countries (and their working classes) into a devastating deflationary competition.

This teaching derives from Keynes, but few left-wing economists are culturally capable of drawing its dire consequences. Indeed, the ECB has acted in conformity with its mandate. Out of the three sources of the Eurozone crisis, the Euro itself, the two-year-long weakness of ECB's actions, and austerity policies, Draghi's move softens the second, but at the price of exacerbating the third, and without doing anything to deal with the first.

Draghi's move should be read as a response to the fear that the fire could bring down the very reason of the ECB's existence, namely the Euro, and that peripheral countries' citizens call an end to this exasperating agony. The patient is thus kept barely alive, so that augmented doses of the other treatment, austerity, effectively annihilate any remaining willingness to react. Therefore, the implications of Draghi's message on the irreversibility of the Euro are pretty sinister, rather than progressive as some commentators seem to infer.

Are there alternative routes ? The unconditional intervention of the ECB, while affirming its role as lender-of-last-resort, makes sense as far as it allows the peripheral economies to execute a growth strategy aimed at restoring their competitiveness, with a view to dealing with the huge intra-European trade imbalances. To this end, stabilisation (not reduction) of the debt-to-GDP ratio should be sought. This objective would hopefully reassure the markets, while leaving room for more expansive fiscal policies. However, this would still not be enough.

A rapid increase in the European public budget should also be pursued, with a strong redistributive bias from core to periphery, whereas the role of national budgets should correspondingly decrease (as in the USA, in short). This vision of a Federal Europe is tantamount to a transfer union subdivided between those who subsidize and those that are subsidized, which would prove unacceptable to both, and not because of "national and nationalistic idiosyncrasies" that one commentator regards as obstacles.

Above all, the hard truth is that Europe is headed in another direction, in keeping with the **true purpose** of the Euro.

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