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ENCIES' POWER

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Pressure on E.C.B. to print money will rise

The European Central Bank could ease the debt pressure on Italy in five minutes. Many investors would welcome that. But the E.C.B. may believe that opting not to "save" Italy has done a lot of good.

Just how easily the E.C.B. might bail out Italy is demonstrated by Britain. Why is British government debt not nearing 7 percent yields, like Italy's, but trading at an absurdly low 2.2 percent? The main reason is that Britain has a lender of last resort that is willing to print its own currency. Italy doesn't have that — not yet, at least.

Britain's ultimate lender has certainly been active. The Bank of England aims to print a total of £275 billion, or $435 billion, in its quantitative easing program. Almost all the money will be used to buy British government bonds. This means the central bank's purchases will more than absorb two years' worth of fiscal deficit, preventing any debt pressure from emerging.

If the E.C.B. were to print money on a similar scale for Italy, it would be enough to cover not only the €60 billion, or $81 billion, deficit expected for 2012, but also the government's entire €300 billion financing requirement for the year. With that scale of support, Italy would not need to sell debt in the markets at all. The pressure would be off for quite some time.

Many world leaders and economists see that as just what the E.C.B. should do. But the central bank's lack of shock-and-awe has pushed Italy in the right direction. Silvio Berlusconi no longer presides over paralysis. Mario Monti, the new prime minister, has a chance to tackle fundamental problems.

Yet the pressure to print will keep coming as yields in Italy, Spain and other countries stay high or go higher. German reluctance to print will also persist. The E.C.B. wants politicians to solve the problems, through fiscal overhauls or loans. But if the central bank is to buy more bonds, Italy looks like the most appropriate beneficiary. The country's deficit is modest and its crisis looks like one of liquidity rather than fundamental solvency. For the euro periphery as a whole, that is not the case — which helps to explain the E.C.B.'s fear of printing money. IAN CAMPBELL