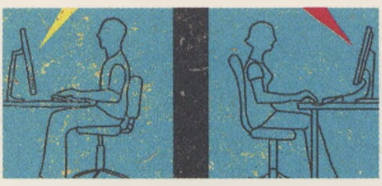

ROBOT CHATTER
WHY THEY'RE TALKING MORE

PAGE 16 | BUSINESS WITH REUTERS

d Tribune

GLOBAL.NYTIMES.COM

48

For Spanish, the burden of safety net falls to elders

ZARAGOZA, SPAIN

As jobless benefits end, younger generation leans on strong family tradition

BY SUZANNE DALEY

Dolores Fernández Mora, 76, and her husband, Mariano Blesa Julvé, 75, once thought they would end their days in relative comfort, their house paid off and with a solid pension of about €1,340 a month. Perhaps they would travel a bit.

Instead, they are supporting their unemployed 48-year-old daughter and two of her unemployed adult sons, who live with them in their tiny two-bedroom home in northern Spain. They have taken over their daughter's debts. Sometimes there is hardly money for food.

"While she isn't working, I don't have new teeth, and that is that," said Ms. Fernández, who, seated in her living room recently, showed off the gaps in her smile.

As the effects of years of recession pile up, more and more Spanish families — with unemployment checks running out and stuck with mortgages they cannot pay — are leaning hard on elderly relatives. And there is little relief in sight.

Spain's latest round of austerity measures appears to have done little to restore investors' confidence. And new employment statistics released Friday showed that the jobless rate had risen to a record 25 percent.

Pensions for the elderly are among the few benefits that have not been cut, though they have been frozen since last year. The Spanish are known for their strong family networks, and most grandparents are eager to help, unwilling to admit to outsiders what is going on, experts say.

But those who work with older people say it has not been easy. Many struggle to feed three generations now, their homes overcrowded and the tensions of the situation sometimes turning their

SPAIN, PAGE 18

Bar is raised for E.C.B. to back up vow to save euro

FRANKFURT

Bold action is expected but Draghi could have tough time delivering

BY JACK EWING

Mario Draghi demonstrated last week how a few choice words from a central bank chief can make or break fortunes, even those of whole nations.

Now, Mr. Draghi, the president of the European Central Bank, faces the much more complicated task of delivering on his promise to do "whatever it takes to preserve the euro."

He will have a chance to give substance to that bold statement when the bank's governing council meets Thursday. With expectations so high, anything short of a decisive display of financial firepower could send markets back to the panicky behavior of only a week ago, when the light trading typical of summer was exaggerating stock-market gloom and bond investors were bidding up the borrowing costs of Spain and Italy to potentially destructive levels.

Mr. Draghi's vow last week and his assurance that "it will be enough" bolstered stocks worldwide and pulled Spanish borrowing costs back from lofty levels. Investors concluded that Mr. Draghi was signaling a major policy action, like huge purchases of government bonds to raise demand for debt from Spain and Italy and keep their borrowing costs at sustainable levels.

Controlling the bond market may not be as simple as it sounds, though, even for an institution like the E.C.B. that has the power to print money. Nor, analysts said, are there many other easy or effective options for the E.C.B., which is the central bank for the 17 member nations of the euro currency union.

Under its current charter, the central bank faces more restrictions on its ability to buy government bonds and stimulate the economy than the U.S. Federal Reserve. While the E.C.B. is supposed to defend price stability above all else and is banned from financing governments, the Fed's mandate puts more emphasis on promoting employment, and it has bought hundreds of billions of dollars' worth of U.S. Treasury securities.

But even the Fed, whose policy-making committee is to meet Tuesday and Wednesday, is struggling to find ways to help the economy when its main tool, the benchmark interest rate it manages, is close to zero. And the E.C.B.'s benchmark rate, which has been cut three times since Mr. Draghi took his post last autumn, is at a historic low, 0.75 percent. But in Europe those low rates have not been passed on to business and consumers in countries like Spain and Italy because

E.C.B., PAGE 18

47

Bold action to bolster euro zone expected from E.C.B.

E.C.B., FROM PAGE 1

their banking systems are dysfunctional.

In such regions, "the interest rate is basically impotent," said Jeffrey H. Bergstrand, a professor of finance at the University of Notre Dame in South Bend, Indiana, and a former economist at the Fed. "The only thing that can help is fiscal stimulus," he said — in other words, government spending by countries like Germany that can afford it.

That may, in fact, be the message that Timothy F. Geithner, the U.S. Treasury secretary, delivers Monday when he meets his German counterpart, Wolfgang Schäuble, on the resort island of Sylt off the German coast. The United States has repeatedly pressed euro zone member governments to be much more forceful in battling the crisis, which has been a drag on the global economy.

The E.C.B. has bought bonds before under a program begun by Mr. Draghi's predecessor, Jean-Claude Trichet. But that ultimately failed to hold down borrowing costs for countries like Spain because the E.C.B. did not commit enough money or show enough determination. Any new round of bond buying would have to be more impressive.

"What can they do and what would bring about a sustained turnaround in market confidence?" said Jacques Cailloux, chief European economist for Nomura. "There I struggle to find something that would really be convincing."

In theory, the E.C.B. could cap bond prices simply by declaring that it would not tolerate market interest rates for Spain above, say, 7 percent. Any speculator who might want to bet against Spanish debt would confront the risk of big losses if the E.C.B. bought bonds in

HANNELORE FOERSTER/BLOOMBERG

Mario Draghi of the E.C.B. promised to do "whatever it takes to preserve the euro."

grand style on the open market to drive down yields, the effective interest rates.

If the threat were credible enough, the E.C.B. might not actually have to carry it out. That, however, is where the task becomes more tangled. For the bank to be sufficiently intimidating, it would have to violate some taboos.

For example, the E.C.B. would have to abandon its practice of offsetting its bond purchases by taking in equal amounts in commercial bank deposits. By absorbing deposits, the E.C.B. takes as much cash out of the system as it puts in via bond purchases. By keeping the supply of money in the economy approximately even, it tries to avoid the appearance that it is printing money.

But already, the E.C.B. has struggled some weeks to attract enough interest-earning deposits from commercial banks to cover the bond purchases it has already made, valued at €212 billion, or $261.2 billion.

The E.C.B. would also probably have to stop treating itself as a privileged creditor — something it did this year during the Greek bailout. By refusing to absorb losses on Greek bonds as private creditors were required to, the E.C.B. may have unintentionally raised borrowing costs for other troubled countries. Investors concluded that if any country could not meet its obligations, private creditors would once again bear all the pain.

A decision by the E.C.B. to accept losses on its holdings of Greek bonds would be a significant policy shift, though, and raise other difficult questions. Certainly the Greek government would rejoice if its debt load dropped €20 billion or so — or even more if the European Union also took losses.

On Friday, in the wake of Mr. Draghi's "whatever it takes" pledge, the French president, François Hollande; the German chancellor, Angela Merkel; and the Italian prime minister, Mario Monti, all expressed vows of support for the euro. Mr. Monti's office said the prime minister and Ms. Merkel agreed to "take all necessary measures to protect the euro zone." The statements did not provide any specifics, however.

But in Germany, where the public debate is still focused on teaching Greece a lesson, rumblings of discontent could already be heard Friday. The Bundesbank, the German central bank, reiterated that it remained opposed to bond purchases because they push the central bank into the realm of financing governments, a violation of the E.C.B. charter.

Dissent by Germany, the euro zone's biggest financier, would raise questions about the E.C.B.'s resolve and very likely blunt the effectiveness of bond market intervention. That has been a problem in the past.

"Technically it's easy," Charles Wyplosz, a professor of economics at the Graduate Institute in Geneva, said of the E.C.B.'s putting a cap on government borrowing costs. "The politics are too complicated."

Mr. Draghi, a clever economist and seasoned policy maker, may devise a way through this political and legal minefield. He has so far avoided a public spat with Jens Weidmann, the Bundesbank president, and the two are said to enjoy a collegial relationship, perhaps leaving room for compromise. Analysts have suggested, for example, that the European bailout fund, the European Financial Stability Facility, could be deployed to buy Spanish and Italian bonds.

Unlike the E.C.B., the bailout fund is empowered to buy bonds directly from governments. It would also assume the job of making sure that Spain and Italy fulfill promise to reduce debt and restructure their economies. Then, the thinking goes, the E.C.B. could buy bonds on the open market as needed to put added downward pressure on borrowing costs.

But this mechanism would take time to carry out, which raises the question of what other, quicker steps the E.C.B. could agree to at its meeting to satisfy the expectations Mr. Draghi has raised.

The E.C.B., which cut its benchmark interest rate this month, could cut it again — to 0.5 percent or even 0.25 percent. The bank, though, has direct control only over the rates at which it lends to commercial banks. The effect on the rates that businesses and consumers pay would probably be minimal, especially in countries like Greece or Spain that need help most. Banks in those countries are focused on survival and not lending much.