For Europe's vast unemployed, hopes remain dim

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Portugal Struggling Europeans

Portuguese Jose Nunes Pereira, 31, carries food dishes to customers in his new restaurant, in Lisbon, Friday, Sept. 5, 2014. Nunes Pereira, who opened a restaurant last month in a Lisbon business district, dismissed the European Central Bank rate cut as "totally irrelevant". The cut "won't trickle down to families. It's a measure aimed at big companies, not small ones like mine," he said. For the struggling Spanish shopkeeper or the Portuguese restaurant owner, the European Central Bank's latest economic stimulus plans won't likely provide much relief anytime soon. If ever. (AP Photo/Francisco Seco)

By: PAUL WISEMAN (AP)
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WASHINGTON (AP) — For the struggling Spanish shopkeeper or the Portuguese restaurant owner, the European Central Bank's latest economic stimulus plans won't likely provide much relief anytime soon.

If ever.

Confronting a stalled economy and painful unemployment across Europe, the ECB is doing what it can. It surprised economists and investors Thursday by cutting its benchmark interest rate to a record-low 0.05 percent. And it announced plans to pump money into the financial system by buying bonds backed by assets such as auto and credit-card loans.

But Europe faces a crushing array of problems — from burdensome regulations to growth-killing budget policies — that analysts say remain beyond the ECB's powers to fix.

"Monetary policy cannot carry the entire burden of reviving growth in the absence of essential broad-ranging structural reforms," said Eswar Prasad, professor of trade policy at Cornell University.

Among the businesses and individuals who in theory might benefit eventually from the ECB's actions, optimism is scarce. In Spain, with its punishing 24.5 percent unemployment, hope is especially dim.

Pablo Torres, who manages a shoe store in Madrid, said he expects the ECB's effect "on the real economy will probably be none."

"In our case," Torres said, "we are at a standstill, not getting ahead or going backwards, and the only thing that's helped us stay afloat is tourism."

In Portugal, Jose Nunes Pereira, who opened a restaurant last month in a Lisbon business district, dismissed the ECB's rate cut as "totally irrelevant."

The cut "won't trickle down to families," he said. "It's a measure aimed at big companies, not small ones like mine."

The ECB hopes to jolt a European economy at risk of sinking into recession for the third time since 2008. In the 18 countries that use the euro currency, unemployment is stuck at a collective 11.5 percent. (By comparison, the U.S. rate is 6.1 percent.) For those younger than 25, the eurozone's rate is 23.2 percent.

The ECB's goal is for lower rates to energize borrowing and spending, which would, in turn, encourage employers to hire. Banks and auto companies would lend more to consumers and small businesses if they knew they could package those loans into bonds the ECB would buy. Companies and consumers who can't get loans from Europe's cautious and troubled banks would be able to borrow.

Lower interest rates are also expected to reduce the value of the euro, thereby helping European companies by making their products more affordable in foreign markets. Indeed, the value of the euro fell after the ECB's announcement to its lowest levels in more than a year.

The ECB is also trying to boost the eurozone's nearly non-existent inflation. Prices are rising just 0.3 percent annually, not even close to the ECB's 2 percent target.

Ultra-low inflation is unhealthy for an economy. It makes it harder for consumers, companies and countries to repay debt left over from the eurozone debt crisis. And it raises fears of an outright drop in prices — deflation — that tends to stifle economic growth and business profits. That happens because many people and companies delay purchases in anticipation of ever-lower prices.

Economists generally doubt that the ECB's moves will do much to nudge consumers to borrow and spend more or to persuade businesses to buy equipment, open factories and offices and hire workers.

For one thing, the bond buying won't even start until October. So it "probably is not going to do very much for the rest of this year," said Jacob Kirkegaard, senior fellow at the Peterson Institute for International Economics.

The bigger obstacle is that Europe is contending with problems the ECB can't do much about.

Banks are struggling with bad loans. They're reluctant to do business with each other or to lend to businesses and consumers.

And employers are bound by high taxes and rules that discourage them from hiring.

"What's really hurting business is this tax burden," said Lisbon restaurant manager Nunes Pereira. "My customers have to pay high taxes on their salaries, and on top of that there's the 23 percent sales tax they have to pay at my restaurant."

Government spending cuts have shrunk pensions in some countries. In doing so, they have depressed demand at a time when consumers and businesses are trying to repay enormous debts left over from the continent's crisis.

Governments might restore business confidence if they passed reforms to make it easier for companies to hire and fire. And they might reduce unemployment by stepping up spending on projects that could provide contracts to businesses and put people to work.

"They have to drive up demand by increased government spending," said Virendra Singh, an economist at Moody's Analytics. "They have to come up with a way to push up wages."

Add to those challenges the anxiety and political uncertainty caused by Russia's military aggression in Ukraine.

In short, Kirkegaard said, the ECB's rate cut and bond-buying plans are "necessary but not sufficient" to restore health to Europe's ailing economy.

Maria da Graca, a pensioner in Lisbon who was walking home from shopping, shrugged off the ECB's latest efforts.

"All I know is my pension's been cut, and I can't buy the things I need," she said, holding up her two small shopping bags as evidence.

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Associated Press Writers Jorge Sainz in Madrid, Barry Hatton in Lisbon, David McHugh in Frankfurt and Pan Pylas in London contributed to this report.