

# Smaghi putting euro crisis in perspective

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Less than a decade after its creation, the euro is facing a crisis. Several European countries, such as Greece, Portugal, Spain, and Italy, face ever-increasing rates on their sovereign debt and more interest payments than their shrinking tax revenues can sustain. The European Central Bank (ECB) has exhausted their standard repertoire of policy measures and has taken experimental measures to prevent the eurozone from falling apart.

In the context of this, Lorenzo Bini Smaghi, a visiting scholar at Harvard's Weatherhead Center for International Affairs, spoke about "The European Crisis in Perspective" at Boston College on Monday. A graduate of the University of Chicago's Ph.D. program, Bini Smaghi served on the Executive Board for the European Central Bank for six years, after working for the Italian Ministry of the Economy and Finance.

While focused on the current state of Europe, Bini Smaghi framed it in terms of the creation and development of the euro, looking all the way back to the 1980s. As Europe tried to become more and more integrated in the years after World War II, he stressed the impediments that the countries faced. One that he focused on was monetary policy and monetary stability. He explained that the markets could not fully integrate until the countries shared a currency because of the lack of capital mobility and the problems caused by devaluation. While they tried to fix the problems with institutions such as European Monetary System, Bini Smaghi stressed that those

systems failed because there was not enough integration and thus the euro was needed.

Bini Smaghi then turned to the problems facing European countries today. He talked about the "moral hazard" that results from bailing out undisciplined countries and the reluctance the ECB has in directly financing governments by buying their bonds on the open market. He stressed that there were no feelings of unity between the well-performing countries and the under-performing ones and that the stronger countries wanted the struggling ones to reform their policy and struggle through.

In addition to explaining the ECB's action during the crisis, Bini Smaghi also described the work that the EU Commission and Parliament did simultaneously. He claimed that the European Financial Stability Facility and the European Financial Stabilization Mechanism were well created for working with the IMF to help countries, but the failure of Greece to respect their decisions on needed reforms undermined their usefulness.

Addressing the future of the euro, Bini Smaghi had confidence in the its continued existence. Although he admitted that there was nothing to prevent a democratic government from removing itself, he stressed that the problem of public confidence would prevent any country from leaving because their government would be unable to find financing in the future. However, he did stress that there would be difficulty and pain ahead for countries like Greece and Portugal as their economies needed deep structural reform. ■