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# Bini Smaghi urges bold decisions

By Ralph Atkins in Frankfurt

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Two of the European Central Bank's six executive board members will quit Frankfurt this month. Germany's Jürgen Stark announced his resignation in September, embittered by how, in his view, the eurozone had departed from the principles of sound public finances and conservative central banking.

Italy's Lorenzo Bini Smaghi is going for different reasons. With his compatriot Mario Draghi's arrival on November 1 as ECB president, he accepted that Italy's over-representation would cause endless resentment in Paris, and made way for Benoît Coeuré, deputy head of the French treasury, to take his place.

In an interview with the Financial Times in his 34th floor office, with views across Germany's financial capital, Mr Bini Smaghi seems frustrated to be leaving a policymaking hot seat at such a decisive moment for the eurozone.

On Wednesday, the ECB allocated a record €489bn in three-year loans to eurozone banks, a wall of money it hopes will ease acute tensions in the region's banking system. But heavy refinancing needs of banks and governments will make the first few months of 2012 crucial for the eurozone.

One lesson Mr Bini Smaghi has learnt is that eurozone policy makers cannot opt out of taking bold decisions. "Some of these decisions may not be optimal and may be criticised, especially with the benefit of hindsight. But not deciding, or postponing decisions, is not an option and leads to worse outcomes." Nor, he says, should decision makers "hide behind lawyers to avoid taking action".

It is a carefully-chosen remark. Germany's Bundesbank and Mr Stark, a former Bundesbank vice-president, oppose any significant expansion of the ECB's government bond-buying programme, pointing to the legal ban in European Union treaties on "monetary financing" – central bank funding of governments. But many economists and European politicians believe any such step will secure the eurozone's stability.

A Chicago university-trained economist, Mr Bini Smaghi, 55, has been one of the ECB's intellectual heavyweights, closely involved in drawing up its response to the global crises of the past four years.

His approach is distinctly pragmatic. The ECB's mandate, he points out, is to implement a single monetary policy across the 17-country eurozone and government bond markets "play a key role" in transmitting its interest rate decisions to the real economy.

Central banks should "use as much constructive ambiguity as possible" – keeping markets guessing about what they might do. But Mr Bini Smaghi does not rule out the ECB announcing limit for yields or the spread between the yield on German and other governments' bonds.

Current market tensions, he says, "may raise some doubts about whether we indeed have a single monetary policy in the euro area today and whether the ECB is indeed fulfilling its mandate. If the issue is not one of solvency [of governments] but rather liquidity, then the ECB has room for action – one could even say that the ECB has a duty of action."

He also sees "no reason," why the ECB should not use "quantitative easing" – creating money to buy assets – if the economic outlook deteriorated and deflation became a risk.

For a central banker, Mr Bini Smaghi is outspoken, perhaps encouraged by his imminent departure. He describes as "disastrous" a Franco-German move last last year – since reversed – to ensure "private sector involvement," or writedowns on bond holdings, in future European bail-outs. The move, which triggered widespread investor alarm about the eurozone, had been opposed "vehemently" by the ECB. It also "would have been more rational" to drop PSI in the Greek bail-out, although it was now too late.

A question about whether the world is too much in thrall to US economists gives Mr Bini Smaghi a chance to rail against those "who use too many simplifying assumptions in their reasoning". Real life is more complicated, he says. "To me, it seems that some economists have become increasingly attracted to quick, simple and shocking answers – just to get the attention of the media and to promote themselves."

His own future became politically complicated in June, when Mr Draghi was appointed successor to Jean-Claude Trichet as ECB president. Then Nicolas Sarkozy, French president, argued publicly that two Italians on the ECB's executive would be too much. For a while, Mr Bini Smaghi stood firm. But in November, he announced his departure for a post at Harvard University.

He says he “never felt any pressure, personally”. He is going only after having made clear the importance of central bank independence and his opposition to “unwritten rules” on ECB board members’ nationalities. Once he had made his points, his departure “was the best way to avoid further polemics”.

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