

A short talk on the Italian debt crisis with Prof. Morris M. Kleiner*

di Francesca Fazio

Last Monday, the spread between 10-year Italian BTP treasury bonds and German Bunds reached the historical record of 347 basis points, and the Milan stock market decreased to its lowest level in two years. Now, after the situation showed signs of recovery, are there any short- and long-term risks for the country and for the European Union at large?

The long term risks are for a default or for the political leaders to fail to increase taxes and reduce government expenditures.

Recently, the European Commission has proposed to tax on financial transactions, along the lines of the Tobin tax. Could this measure be of any help?

Only if other major financial markets do the same. If the EC imposes a tax it will put that block at a competitive disadvantage.

Why “trust” is so important in the context of credit and financial markets? Is it a psychological mechanism or only a means to speculate?

Trust but verify. Trust is important but the markets rely on liquidity and the ability to pay back lenders.

Lately, Obama has expressed some worries about the American public debt. Is there a sort of “Athens syndrome” in Washington?

The U.S. as the world’s largest economy has a large current deficit that it must manage. The US should do some combination of tax increases (eg. Or reduce loopholes) and or reduce government expenditures. Finally it needs to raise its debt ceiling in the short run.

* Morris M. Kleiner is Professor of Public Affairs and Industrial Relations at the Humphrey Institute of Public Affairs and the Industrial Relations Center at the University of Minnesota.