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Not all eurobonds are the same

To dispel fears of potential state-to-state transfers, eurobonds could be guaranteed by an annual 'citizenship contribution'

The bottom line economic consequences of the coronavirus in the EU will depend on the scale and promptness of the action taken to support economies. We have weeks, not months. From multiple sides new powerful tools have been proposed to protect the European Union, among them eurobonds or coronabonds. This is the right path. But there have been many objections, above all from Northern European countries, which may slow down or even block the adoption of this solution.

To overcome these objections we have outlined a proposal for a targeted eurobonds emission on a scale capable of effectively taking on the health and economic crisis in all EU countries and initiating a recovery. In a nutshell, any eurobond issuance will have to be shored up by a guarantee. We believe that this guarantee must be *new* and *shared*. It could take the form of a special purpose fund within the EU budget. The guarantee would be even stronger in the event that EU countries agreed to give the Commission full-blown power to tax, thus transforming these contributions into the EU's 'own revenue'. This would mean the advent of fiscal union. But launching a full-blown fiscal union immediately is not necessary.

This fund would be fed by an annual 'citizenship contribution' proportionate to the number of adult citizens in the Union, which would this way distribute the burden equitably among member countries. The citizenship contribution would be calculated by multiplying each adult citizen by €50. The resulting fiscal capacity would be used entirely to guarantee the payment of interest on fixed-coupon open-ended or very long-term eurobonds (*perpetuities* or *consols*) paying a warranted positive interest rate (1 or 2 per cent). The fact that each state's contribution would be calculated by multiplying a fixed amount (€50) by the adult population does not imply that it must necessarily take the form of a per capita European citizenship tax (a poll tax), the equitability of which can be disputed.

The revenues collected from issuing these eurobonds would be spent according to a programme decided upon and controlled by the Commission, proportionately to each country's adult population. Individual countries wouldn't be allowed to use this money at their own will. The adult population is simply the key to this scheme for the purpose of dispelling fears of potential state-to-state transfers. The annual fiscal cost of the scheme would be 0.11 per cent of the EU's 2019 GDP. The benefit of the scheme in immediate spending terms (at a 2 per cent interest rate paid on the bond) would be 6.64 per cent of the EU's 2019 GDP. Double it at a 1 per cent interest rate.

What our eurobonds are not

It is worth making clear what the eurobonds we are suggesting are *not* and what they will *not* do.

First, they are *not* new individual member state bonds; and do *not* mutualise the various states' existing debts: the 'virtuous' ant-states would not be guaranteeing the previous debt of the 'less virtuous' cricket-states. The technical issue of these eurobonds could be entrusted to an entity such as the EIB or the EFSM.

Second, they are *not* loans, not even ESM loans. Such loans were and still are aimed at tackling the financial crises of individual states, under strict conditionality, rather than the gigantic common shock of the coronavirus pandemic.

Third, the resources made available by eurobonds are distributed by the Commission and do *not* constitute temporary or permanent transfers from one country to another because the key to spending and the necessary back-up is the adult population, not financial needs, nor fiscal space nor any 'capital key'.

Someone may observe that Northern countries do not need eurobonds, as they have sufficient national fiscal space to accommodate huge expansionary policy and as they are able to long-term finance their deficits at a negative interest rate. But:

There may well be an underestimation of the scale of the pandemic and of its impact on the social and human capital of all EU countries and an overestimation of nations' fiscal capacity to deal with it. The upshot would be an acute *moral hazard* that risks rebounding on each country's citizens, not to mention those of Europe as a whole.

On top of that, negative interest rates on government bonds are actually a tax on savers in a desperate search for safety. Such a tax can be regarded as a monopoly rent for Northern governments (especially Germany), paid by savers from all over Europe. The existence of safe eurobonds with a positive real yield will bring some competition in the safe-assets market and bring benefits to all European savers.



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