Opinion **Eurozone reform**

Go-it-alone eurozone ‘coronabonds’ are worth the risk

Nine countries can make a stand for sharing the fiscal burden of the pandemic

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A cheese shop in Monpellier during the lockdown. France is one of nine countries in the eurozone calling for a mutualised asset to share some of the direct fiscal costs from the coronavirus pandemic © AFP via Getty Images

Wolfgang Münchau MARCH 29 2020

The eurobond is to the eurozone what Brexit has been in the UK: the defining ideological issue. No one ever changes their views on it, at least not as a result of a reasoned debate. You are either here, or there.

Last week, nine EU leaders wrote a letter to Charles Michel, president of the European Council, asking for a mutualised asset to share some of the direct fiscal costs from the coronavirus pandemic. The European Council, predictably, refused to act on this request.

No crisis is ever big enough to stop European member states putting their narrow interests first. Wopke Hoekstra, Dutch finance minister, even used the opportunity to lash out at what he considers the past fiscal profligacy of some member states. He invoked the standard argument: a eurobond would produce moral hazard. Among German and Dutch economists, the idea that a backstop encourages irresponsible spending is a popular concept. More often than not, hiding deep prejudices and distrust of foreigners. While not everybody is quite as tactless as the Dutch finance minister, the sentiment is shared in his country and in Germany, too.

For France, Italy, Spain and the rest of the nine eurozone countries calling for “coronabonds”, there is a way forward. They could set up a mutualised bond backed by themselves, in a coalition of the willing. They could then challenge the European Central Bank to buy these securities as part of its pandemic emergency purchasing programme.

Legally, a mutualised debt instrument between a group of sovereign states would still count as national debt. The repayment obligation would be shared.

This would not reduce the debt load of vulnerable member states in a way a properly designed EU-wide instrument could. But, at the very least, it would set a precedent, and raise some money.

Therein lies an opportunity and a risk. Bonds backed by the nine countries may be seen as a precursor to a future split. It has been my view since the eurozone crisis that Germany will only act to help others when it perceives an existential threat to the eurozone.

If members are not ready to walk out, nothing will ever shift. If the eurozone nine choose to play it safe, they will miss the moment. I note with interest that the prime ministers of Italy and Spain acted jointly when they rejected the draft conclusions of the European Council last week. This is a confrontation that absolutely needs to happen.

What would such a mutualised bond do? At the beginning of the eurozone crisis, I argued in favour of a eurozone bond as a risk-sharing device — the need for which has now become sadly obvious. The purpose of a one-time “coronabond” would have to go far beyond providing insurance, or even beyond paying for healthcare expenses. I think the funds should be used for a post-crisis investment programme.

As the German constitutional court keeps reminding us in ruling after ruling, fiscal policy is a national prerogative. If the nine countries want to go down the mutual path, they can. It is a risky choice, but not nearly as risky as sheltering under the rescue umbrella the eurozone set up after the last crisis.

Under that precedent, when member states in need of cash seek emergency financing from the European Stability Mechanism, they must subject themselves to fiscal supervision. Italy and Spain would have to accept an erosion of fiscal sovereignty, possibly for generations, even as Germany, the Netherlands, and Finland reverted to running large fiscal surpluses against the rest of the eurozone and the rest of the world.

I do not believe this to be sustainable. Italy could easily end up with a ratio of debt to gross domestic product of close to 200 per cent once this crisis is over. With high unemployment, low growth and no fiscal sovereignty, it would be fertile political ground for those on the right who are urging it to leave the euro.

Remember how the Brexit majority arose in the UK. Leaving the EU started as a fringe project of the nationalist right. It won because it attracted sufficient support from the political mainstream, and from parts of the left. No matter whether you are pro- or anti-European, it is not rational for countries to choose economic arrangements that are detrimental to their interest.

It is no accident that the nine countries seeking a shared bond — Portugal, Ireland, Greece, Slovenia, Luxembourg and Belgium are the others — are largely connected geographically in the eurozone’s south and west.

We do not know whether the monetary union will split, and if so, whether a split would be clean or messy. But if it happens, we know where the line will be drawn.

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