



AFTER THE CORONAVIRUS TSUNAMI: IT IS TIME FOR EUROBONDS

*Alfonso Iozzo and Alberto Majocchi **

Among the effects of the Covid-19 (Coronavirus) crisis are the consequences on the economies and public finances of the EU's Member States. Important positions have recently emerged in this respect and it seems appropriate to set out some preliminary considerations. The first observation is that we are now moving towards an official sanction of *Eurobonds*. The public finance manuals discuss the possibility of selling securities as an instrument of extraordinary finance for the financing of wars. The fight against the coronavirus is a war and, therefore, recourse to debt seems inevitable. The point is to identify the lines to follow in order to reap the best benefits.

As far as the financing of the health expenses determined by the pandemic is concerned, that this is a task for the European Central Bank (ECB) sounds straightforward. It is the only institution able to act immediately to finance these extraordinary expenses, buying securities to the extent necessary to deal with them, and thus guaranteeing the containment of the pandemic. It is an inevitable choice: it is necessary to act quickly, the use of any other instrument seems inadequate. Public debt will grow, but if interest rates remain low, the debt is sustainable, even if this means a rebalancing effort later.

As far as the financing of economic recovery is concerned, as happened at the end of the Second World War, reconstruction will have to take place not on the basis of the old – polluted and polluting – development model, but with the aim of building a sustainable, fair and carbon-free economic system. The old system dies with the coronavirus, although the transition will be not short, and will be costly. The financing of this transition will take place largely through the issue of securities, along different channels and with certain conditions. At the start of the ecological transition the necessary financing of companies, foreseen by the Green Deal, should be entrusted to the European Investment Bank (EIB) which is planned to become, according to President von der Leyen, a “Climate Bank”.

A second financing channel concerns lower levels of government, and in particular the municipalities, which will play a decisive role in the implementation of the Green Deal (just think of the replacement of private transport with public transport, the transformation of buildings to make them compatible with the reduction in the use of fossil fuels, soft mobility, cycle paths, urban planning). In this case, the financing will have to be borne by the European Stability Mechanism (ESM), which will issue *Sustainable Bonds* (no longer *Stability Bonds*, as the objective is no longer to save states, but to direct the economy towards a path of sustainable development) and with the proceeds will make loans at low interest rates. The only conditionality to be imposed is that investments must be compatible with the new green model of development. The ESM will finance itself on the market by issuing securities against loans that benefit from the senior creditor clause, and will thus be able to create a *safe asset* market of considerable size, which the international financial market increasingly needs.

The exit from the pandemic will coincide with the start of the implementation of the new economic model envisaged in the Green Deal, that will require a huge amount of investments. This channel should be financed through the issue of securities, under two conditions: a) the investments should result into a growth in public ownership, which produces the income necessary for the repayment of debt and which can simultaneously generate a wealth capable of supporting future welfare along the lines of the Norwegian model (based on oil revenues); b) the issues are guaranteed by an autonomous fiscal capacity, with the introduction of new EU resources. On the latter point, the most reasonable hypothesis is that the Emissions Trading System (ETS) should be extended – at least in part – to sectors which are currently excluded from it, that permits should be auctioned and part of the revenue should go to the European budget. Finally, a border carbon adjustment should be introduced, the revenue from which constitutes an own resource, since it is a customs law.

Ultimately, after the coronavirus tsunami, a new structure of European economy and finance could emerge, aimed primarily at the implementation of the Green Deal and largely financed by issuing bonds guaranteed by own resources, which prefigure the emergence of autonomous finance at the Union level.

* **Alfonso Iozzo** is President of the Centro Studi sul Federalismo and Vice President of Robert Triffin International; **Alberto Majocchi** is Professor Emeritus of Public Finance at the University of Pavia and Vice President of the Centro Studi sul Federalismo.