



CENTRO STUDI SUL FEDERALISMO

“A national debt, if it is not excessive, will be to us a national blessing. It will be a powerful cement to our union. It will also create a necessity for keeping up taxation to a degree which, without being oppressive, will be a spur to industry”  
(Alexander Hamilton, 1781)

---

## BEYOND THE EMERGENCY: 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.

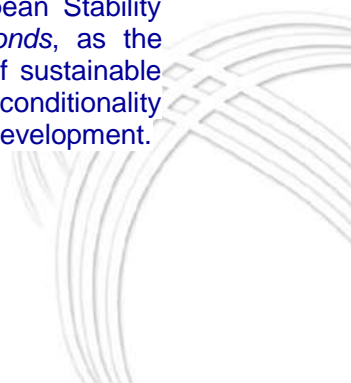
The first observation is that we are now moving towards an official sanction of *Eurobonds*, determined, as always, by the development of a critical situation, which, very much in line with Jean Monnet's vision, makes it essential to take a step forward on a specific but decisive point. The public finance 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, [Olivier Blanchard's indication](#) 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, because it is necessary to act quickly, and the use of any other instrument seems inadequate. Public debt will grow, but if interest rates remain low, [the debt is sustainable](#), as Blanchard again points out, even if this means the imposition of a rebalancing effort later.

As far as the financing of economic recovery is concerned, the preliminary consideration to be made is that, 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, as it is clear in the letter sent to Ursula von der Leyen by 31 mayors of major European cities (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 therefore have to be reformed on the model of the *Cassa Depositi e Prestiti*, which in Italy financed the capital expenditure of the institutions, with a "payment delegation" giving it priority over the repayment of the loan. 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.

It is clear that the exit from the pandemic will coincide with the start of the implementation of the new economic model envisaged in the Green Deal. The Commission expects additional investment above the baseline of at least €260 billion per year, but it will probably have to be more. And we must also take into account the need to activate the financing of a Marshall Plan for Africa by the EU in order to support – among other things – the construction of renewable energy plants to replace fossil fuels. This channel should be financed through the issue of securities, but under two conditions: a) that the investments should result into a growth in public ownership, which produces the income necessary for the repayment of debt (on the Italian IRI model for motorways) and which can simultaneously generate a wealth capable of supporting future welfare along the lines of the Norwegian model (based on oil revenues); b) that the issues are guaranteed by an autonomous fiscal capacity, with the introduction of new EU resources.

On this last point, the most reasonable hypothesis which emerges from the Commission's [Communication on the Green Deal](#) 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 – without necessarily having to adopt the procedure laid down in the Treaties (Article 311 TFEU) for the introduction of new categories of own resources.

Moreover, as far as investments are concerned, the activation of the EURATOM Treaty which already includes the possibility of issuing Union bonds, should also be examined: to be transformed into a "European Energy and Environment Community", with the extension of the powers already provided for in the Treaties to all other energy sources.

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. In the medium term, this will have to develop through a number of channels: the introduction of a carbon price in non-ETS sectors, a digital tax and a financial transaction tax, and then a levy on companies once the common tax base has been defined at EU 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*.

