Ursula von der Leyen told the European Parliament on April 16 that the best way to fund the recovery programme as the Coronavirus recedes is the EU budget.

In a strange turn of phrase, she said “The European budget will be the mothership of our recovery.”

It is clear, however, that Member States disagree about increasing the size of the budget and about the ‘moral hazard’ implicit in mutualising future national debt.
Even where they appear to agree, as in the Eurogroup decision of 9 April, they fall out soon afterwards about how to implement measures designed to ease short-term liquidity problems.

The European Council is meeting again today by videoconference to try to resolve these disagreements. Ursula von der Leyen and Charles Michel promise a new proposal on the Multi-annual Financial Framework (MFF) for 2021-27.

The EU’s capacity to spend and borrow is rigidly constrained by the ceiling imposed in the current ‘own resources’ decision of 1.2 percent GNI.

“A much bolder measure is called for – no less than the launching of a genuine, federal eurobond whose immediate purpose is economic recovery, but whose lasting effect will be to strengthen Europe’s integration”

Von der Leyen said, “This is why we will need innovative solutions and more headroom in the MFF to unlock massive public and private investment.”

But beyond a reference to the financial leverage attempted by the Juncker Commission, Von der Leyen did not say where the extra money is to be found.

A number of interesting proposals for recovery funding directly connected to the pandemic have emerged. France’s finance minister Bruno Le Maire, for example, has proposed a common issuance of bonds secured against the joint and several guarantee of the Member States.

While his and other such schemes have merit, they risk repeating the mistake of leaving the Union without the fully-fledged common fiscal policy that the situation so urgently requires.

Moreover, the proposals on the table are too small-scale in macroeconomic terms to prevent recession from tipping into depression.

A much bolder measure is called for – no less than the launching of a genuine, federal eurobond whose immediate purpose is economic recovery, but whose lasting effect will be to strengthen Europe’s integration.

The federal eurobond would be issued by the Commission and secured against the EU budget. The recovery fund, created as a special purpose vehicle, would not itself be part of the budget, although interest paid to bondholders would come from the EU budget.
Revenue to cover those costs should be raised in several new ways already proposed by the Commission, including a plastics tax, a digital tax, and proceeds from the carbon emissions trading scheme and a slice of a common consolidated corporate tax.

Member states would not be asked to increase their direct national subscriptions to the EU budget. The EU's famous discipline of the balanced budget will be maintained.

Maturities offered should be lengthy to emphasise the significance of the first federal eurobond as an act of political and commercial confidence in the stability of the euro and the durability of the Union.

“Member states would not be asked to increase their direct national subscriptions to the EU budget. The EU’s famous discipline of the balanced budget will be maintained”

An own resources ceiling of 2.5 percent GNI will give the Union the fiscal space it needs over the next decade. The target would be to raise more than €1.5 trillion.

The EU’s first federal bonds should be an attractive investment opportunity for governments, institutional and private investors.

The floatation of federal eurobonds is controversial but is far from being the first instance of real transfers of resources among Member States.

Joint and several liability expressed through Union interventions in the market place is entirely consistent with the spirit of solidarity that imbues the EU Treaties.

In the long run, fully mutualised debt security as a permanent fixture of EU fiscal policy will need the legal certainty that can only be provided by a formal, upwards shift of competence from the national to European level.

Ultimately, a ‘sovereign’ Union means treaty change. The EU’s constitutional courts, led by the European Court of Justice, will tolerate nothing less.

In the meantime, however, the special purpose vehicle of the eurobond recovery fund is the simplest and quickest solution, achievable without treaty change as part of the new own resources decision.

Creating a federal eurobond market will shift politics at the Union level, notably in favour of the Commission, which will be enriched as a powerful investor in world-leading technology, incentivising the Green Deal.

Opinion in the college is divided about eurobonds. Von der Leyen should take the bold route. Her Commission will fail unless it summons up a decisive response to the economic crisis.

About the author

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