Tapping the market jointly

With relative calm restored to the financial markets, generally, thanks to the long-term liquidity provision by the ECB, more fundamental defects in EMU may get full attention. The fiscal compact treaty, deformed by its 'extraterritorial nature' outside of the usual EU structure, gets full attention, as well as, finally, stimulating the economy, notably in Greece, Portugal and Ireland. Although, on this score, the results of the informal European Council on growth and reducing (youth) unemployment were far too meagre. This is also the time to think of a joint tapping of the market by euro area governments. Germany and the Netherlands have thus far maintained their opposition to so-called Eurobonds, joint debt instruments issued by euro area governments. According to the Dutch and German perspective, joint tapping of the markets should be a crowning achievement of EMU, not something to be undertaken whilst the crisis is ongoing. And yet, the separate tapping of financial markets by individual governments makes them prone to speculation. As is well known, during the first decade of EMU, financial markets hardly distinguished between debt instruments issued by Germany or by Greece. When the collapse of Lehman Brothers led to large-scale guarantees to the national banking industry by individual Member States, or nationalisation of major players by national governments, markets began to distinguish among euro area governments, and began to treat them as islands in a stormy ocean. Markets and rating agencies did not reflect the membership of the euro area in their judgements, or reflected this only negatively due to the admittedly faulty decision-making in EMU. They misunderstood the nature of the European Union. Markets know States that have a currency. Monetary unions that are almost a federation, but incompletely so, are unknown to them. Hoeksema and Schoenmaker call it "A Polity called EU". Back to Eurobonds. A mechanism that would prevent irrational distinctions by markets and, yet, avoid moral hazard would be an ideal substitute for the current situation. Such a mechanism has just recently been proposed.

Among the many proposals for joint debt issuance, the Euro T-Bills Fund proposal stands out. It suggests a temporary pooling of short-term debt issuance by euro area Member States. They would agree to tap the markets jointly for a limited period of time (four years) during which they would be able to restore their public finances. Receipts from such joint T-Bill issuance would be disbursed among the participating Member States with interest rates staggered to reflect an individual State's compliance with the Excessive Deficit Procedure and the Stability and Growth Pact. A pre-agreed formula would determine the top-up on the market rate paid by the Euro T-Bills Fund for individual Member States. The worse they perform in respect of the 3% and 60% reference values for the current government deficit and the public debt in connection to the national GDP, the more they would pay in terms of interest. I co-authored this proposal, as did fellow columnist Wim Boonstra.

The temporary character of the fund would enable participating States to experiment with joint debt issuance, taking an annual decision to continue with the joint tapping of the markets during a brief period of restoration of public finances, and of confidence. If successful, the temporary system could be followed up by joint issue of debt instruments for all maturities, not just short-term Bills. The temporary nature of the proposal is in line with the Redemption Fund proposal of Germany's top economic advisers (*Sachverständigenrat*). In the meantime, appropriate treaty provisions could be adopted. The ratification of a number of international agreements (the amendment of the Treaty on the Functioning of the European Union (TFEU) with a view to the establishment of the European Stability Mechanism (ESM), the ESM Treaty itself, and the fiscal compact treaty among the 25) provides a window of opportunity to give a firm legal basis to the joint issuance of debt instruments by EU Member States. At the least, the TFEU should contain a provision specifically permitting such joint debt issue. Tapping the markets jointly would allow Europe to shield from the worst of market panic and reassert some authority to governments and the people they represent against credit rating agencies and financial players whose focus on quick profits makes them sometimes forget their wider societal responsibility.

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