



The range of different opinions and moods in Germany on collective ‘corona bonds’

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Back in 2012, Chancellor Merkel caused a stir when she said that “there will be no eurobonds – not in my lifetime.” This appears to have been the ethos underpinning Germany’s European policy for years. **It was perhaps inevitable back then that, eight years later, the debate would still not have ended the way Merkel wanted.** The subject now is ‘corona bonds’. Eurobonds in all but name, say some. Just a temporary means needed to overcome the crisis, a “sign of European solidarity”, say others. **The focus of the current debate in Germany is no longer merely on evaluating this approach from a technical standpoint, but now also apparently from a social one.** The discussion ultimately turns on the issue of what forces might be set in motion by such an instrument – both in the north and in the south. Here is a summary of the situation.

This topic will surely be on the agenda again when the European Council meets on 23 April, with the EU heads of governments convening by way of a video conference to discuss, among other things, a fund to rebuild the European economy, i.e. a Marshall Plan-like undertaking, along with the question of funding (Marshall Plan bonds?) and the resulting liability issues. **In an interview with the Handelsblatt newspaper on 13 April, Valdis Dombrovskis, Vice President of the European Commission, alluded, for instance, to a reconstruction fund with a volume of up to EUR 1.5 trillion to be financed by joint bonds issued by the euro zone countries.**

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Yet Dombrovskis is not the only one coming up with ideas like this. According to the view shared by the economists Gabriel Felbermayr, Michael Hüther (German Economic Institute), Sebastian Dullien (Macroeconomic Policy Institute), and Peter Bofinger, “euro zone countries should be able to issue collective bonds totalling EUR 1 trillion (around 8% of euro zone GDP) on a limited basis to deal with the crisis. Member States can draw on support from this pool of funds if they are at risk of losing access to the capital market. Collective liability means that the level of debt in the most affected countries would rise by a comparatively small amount.” The decisive factor here seems to be that this is an emergency fund, i.e. a one-off measure. “The bonds created in this way would at the same time create ‘safe assets’ for euro zone banks, thereby reducing the risk of a doom loop setting in between ailing banks and weak public finances.”

As things currently stand, nine euro zone countries, along with numerous experts and political parties (e.g. the German Green Party), are advocating the introduction of time-limited bonds with a view to limiting the repercussions of the exogenous shock, especially for those states already suffering under the heavy burden of debt. Even the **President of the Bundesbank, Jens Weidmann**, among others, also recently informally recommended abandoning resistance to temporary bonds because central banks should not bear the burden of the crisis alone – especially since Weidmann expects the depth of the ensuing problems to be farther-reaching than during the 2008 financial crisis.

The debate in Germany is a much more nuanced one than was the case during the financial crisis

The surprise here is not the fact that history occasionally repeats itself, as the German magazine ‘Der Spiegel’ recently wrote, but rather the intervals and intensity of the debate. A recent survey reveals that, while the majority of the population in Germany may generally be in favour of financial aid being given during the corona crisis, any attempts to collectivise debt would be and remain an absolute taboo. **At the beginning of April, Italian mayors published an open letter in the Frankfurter Allgemeine newspaper.** When a letter begins with “Dear German friends”, it is plain to see that the atmosphere is strained (NZZ). In it, the signatories referred to the proposal of Italy, France, Spain and six other Member States to introduce corona bonds. The Netherlands, the strongest opponent of bonds, is accused of demonstrating a “lack of ethics and solidarity”. Germany is reminded that France, Italy, Spain and Belgium were also among the states which had granted Germany debt relief under the 1953 London Debt Agreement. **It was certainly no coincidence then that, a few days later, ministers Olaf Scholz and Heiko Maas also published a joint article in Italy, Spain and France.** While the authors obviously made no mention of corona bonds, they instead pointed to the ESM and EIB as ways of showing solidarity in Europe. “In Italy’s case, this would mean EUR 39 billion of fresh funds, in Spain’s case, EUR 28 billion,” the ministers reckon.

Much of this is reminiscent of the debate back in 2012 – the appeals of southern Europe being met with a resounding ‘no’ by Germany. Yet if the noise is filtered out and attention paid to what is being said between the lines, the debate in Germany takes on a more nuanced look. **It seems that opinions are divided into three main groups:** Firstly, those who were sceptical about eurobonds and recycle the arguments used here to discourage ‘corona bonds’. Secondly, those who continue to support the concept of eurobonds and now sense an opportunity. The third and final group are those who are indeed sceptical about eurobonds, but are nevertheless willing to get on board with the notion of ‘corona bonds’ that are both time-limited and strictly for addressing the current crisis.

1. What the opponents say – “Old eurobonds in new packaging”

In terms of numbers, according to the FDP parliamentary group, Italy would have to mobilise EUR 114 billion to provide a supplementary budget like the German one for the corona crisis. If Italy were to raise this amount on the capital market, the country would have to pay just EUR 1.71 billion in interest (at a rate of 1.6% for ten-year bonds). **With this in mind, “a stop must be put to the fantasies surrounding corona bonds” because collectivising debt is not a solution, they say.** The ESM has just the right tools Italy currently needs and, what's more, they would be available immediately.

The BDI was also sceptical. “There are considerable financial reserves available at the European level,” says BDI Director General **Joachim Lang**. This means there is no reason whatsoever to reopen the debate. Nor does this fly in the face of EU solidarity.

The EMU was originally built on a very different philosophy: **Fiscal policy remains the sole purview of Member States. Despite the criticism levied by some here, these are the contractual conditions of the euro.**

Friedrich Heinemann, President of the ZEW – Leibniz Centre for European Economic Research, confirmed the position being taken by the FDP parliamentary group. He says it reveals what Italy is really aiming at: **“What this clearly demonstrates is that corona bonds are not, as claimed, about securing a better interest rate, but instead about the collectivisation of liability over the long term.** Issuing the first round of corona bonds would therefore represent the first step in a move towards refinancing national government debt on a comprehensive scale.”

This would also completely undermine the ‘no bailout clause’ under Article 125 of the Treaty of the Functioning of the European Union and, in the view of German critics, the sovereignty of Berlin's parliament. **It is also claimed that Italy suffers from a notorious lack of ability to compete due to the absence of structural reforms. Italy is the only country in Europe that has failed to reach output levels seen in 2006.** Far from solving these problems, eurobonds will actually be an additional temptation to avoid making the necessary reforms in the future.

Minister for Economic Affairs Peter Altmaier called the discussion a ‘phantom debate’. Sources from within Germany's Ministry of Finance have also intimated that the whole notion is a non-starter. While Finance Minister Scholz was more measured in his tone, he remained firm on the matter: “There is currently no need to invent new instruments such as these.” Chancellor Merkel pursued the same line of argument. As a way of seeking appeasement in the debate, Germany submitted a joint proposal with France which carried the following core message: The three pillars currently available, ESM, EIB and refinancing of the short-time work allowance, are perfectly sufficient. The ESM's precautionary credit line could be used to issue loans amounting to 2% of the GDP of a Member State, and the EIB could provide EUR 200 billion of liquidity by means of a guarantee fund for business loans. Finally, EUR 100 billion can be used by Member States to refinance short-time work allowances (please refer to the report 0041/FinAtt/Berlin/2020 for further details here). **The Chairman of the German Council of Economic Experts, Lars Feld, praised the proposal. The problem with ‘corona or eurobonds’, he says, is that “while one of the joint debtors is liable vis-à-vis the creditors for the full amount of a bond, they can only recover their share internally from the other European states.”**

This constitutes a high financial risk. In Germany, not even the Federal Government and the Länder are liable vis-à-vis each other.

2. The proponents

No sooner had the corona crisis begun did the opposition party, 'Die Linke', see their chance: "The Chancellor must finally give up her resistance to corona bonds," demanded Fabio De Masi. **"If the EU fails now, this may well prove to be the beginning of the end for it."** They say that all the legal conditions can be met. The Greens and their chairman **Robert Habeck** also pointed this out: "We are not in 2012 anymore." **It is no longer about redistributing debts built up in the past, but of cushioning the impact of a one-off event in the spirit of solidarity.** "Nobody wants countries to be able to fritter away money in the future and land Brussels or Berlin with the bill." **The fight to overcome the crisis should not be opened to speculative activity on the capital market.**

The tone was still one of compromise when the debate began. Former SPD chairman **Martin Schulz** said, "I have always been a supporter of eurobonds. **Yet it is an ideologically charged debate that renders their introduction impossible in the short term.** [...] Nothing will come of eurobonds unfortunately as long as the divisions within the euro zone continue to run so deep. This is why they are not the quick solution." What Finance Minister Olaf Scholz is doing in the current situation is the right thing: "We need to ease the financial burden on Italy and Spain in the short term by means of the ESM." In addition, there are the ECB programmes and the assistance provided by the European Commission, which has suspended the criteria to control deficits. **"And by the way, the ESM also lends money that is jointly secured by everyone: the exact definition of a eurobond. This is something, however, that a number of individuals in the Union [CDU/CSU] have not yet comprehended."**

The tone in the mainstream media, however, is also sounding increasingly critical. Der Spiegel called the German attitude "small-minded, cowardly and lacking solidarity". Even NDR, a broadcaster that is otherwise very reserved, vociferously criticised Scholz and Maas, **saying the attitude towards bonds is 'antiquated' and the joint letter of the two ministers is 'at the very least arrogant, if not grossly negligent'.** European solidarity is not something that can be achieved with technical funding concepts. **Der Spiegel stated in both directions: "Emotions are a political factor".** It is also about symbolism, about sending a message about the north-south divide in the EU, even in crises "for which nobody is to blame". **Germany has already expected quite a lot of its neighbours. "Now is the time for it to endure an imposition".** SPD politician Lars Castellucci said, "Europe is in danger of becoming the most prominent fatality of the coronavirus. The mood in Italy is dramatic. The Russians and the Chinese are being hailed as saviours. People feel like Europe has left them in the lurch."

3. The pragmatists in the middle

Michael Hüther, Director of the employer-oriented German Economic Institute, and the former economist Peter Bofinger, are not really what you would call fans of 'corona bonds'. The researchers see the corona bonds more as a compromise to find a way out of the dilemma, rather than as the seeds of discord. Hüther said by way of reminder that this is a **one-off tool to mitigate the crisis**, not a new financial framework for the long term. "We are currently faced with a very special situation." Nobody is responsible for this coronavirus-induced shock. "And different countries in the euro zone have been impacted in different ways and to varying extents." **Hüther went on to say that corona bonds are not eurobonds, referring to the discussion during the euro debt crisis ten years ago.** Moreover, the ESM is limited in its ability to help here. **"The ESM has a different function. It was created in response to the financial crisis and is intended to stabilise banks. But Italy is not Greece five years ago."** Moreover, countries that receive funds from the ESM are stigmatised. "And that is not what it was created for."

On 8 April, Clemens Fuest (ifo Institute), Marcel Fratzscher (DIW) and French economists led by Agnès Bénassy Quéré (University of Paris 1 Panthéon-Sorbonne), among others, made their voices heard. The experts call for the ESM to set up a separate credit line for the corona bonds – a Covid Credit Line. The full document can be accessed [via this link](#). They also propose the EU's "Sure" scheme for short-time work allowance and a "Post Covid Investment Fund" to be funded by joint recovery bonds. These could be issued by the European Commission, the EIB and the ESM. **Fratzscher, previously a supporter of eurobonds, would like the proposal to be seen as a compromise. It is no coincidence that the paper was published during the break in talks after the second round of Eurogroup meetings on 8 April.**

Michael Heise, formerly the Allianz Group's Chief Economist and now HQ Trust's Chief Economist, sees many questions that remain unanswered in respect of corona bonds: Who will issue the bonds? How will the funds be distributed? What should they be used for? Heise **therefore believes that a euro-wide fund would be more appropriate, one which would issue collective bonds and grant favourable loans to the countries having been particularly affected** to rebuild the healthcare system, for example. **Where absolutely necessary, solidarity is needed from Germany and other countries in the form of direct, one-off payments to crisis-stricken Italy and Spain.**

Complex situation in the SPD and the Union: For it, but against it

The debate within the SPD especially is quite remarkable. SPD leader Norbert Walter-Borjans has always been in favour of corona bonds, meaning there is a clear line dividing the party headquarters in the Willy-Brandt-Haus and the SPD-led Ministry of Finance. Walter-Borjans said, "This is not only a matter of showing European solidarity; it is also a matter of self-interest. If these countries are unable to back on their feet, economically speaking, then Europe will not get back on its feet either." The offer to close ranks with the Minister of Finance was therefore only accepted half-heartedly. Both sides agree that the countries needed to be helped, including by means of the ESM although, as Walter-Borjans and Scholz subsequently qualified, help that should be subject to fewer conditions.

So far, so good, but the way forward remains a controversial one within the SPD. Walter-Borjans remarked, "**That is why it is not very helpful if we were to say now 'stop** talking provocatively of the collectivisation of debt.' The future of Europe is at stake. We need to get something going fast. It is for this reason that we have been campaigning together to go a different way, but to leave the door open for corona bonds."

Finance Minister Scholz's 'no' is not unexpected. Back during the 2012 financial crisis, the then mayor of the city state of Hamburg said, "We in Europe must agree that aid for the defence and stabilisation of our common economic and monetary area is not frivolously spent. [...] Eurobonds are not what is currently needed."

Within the SPD, there are also those who think that the ESM is not made for such crises, even without conditions, because the terms of the loans are too short. When asked why they say 'no', they cautiously point the finger at their coalition partner, the Union.

What is interesting here is that it is for the same reasons as those coming from the SPD headquarters that prominent Union politicians criticise the Chancellor's position. Norbert Lammert, previously the President of the Bundestag for many years and now chairman of the Konrad Adenauer Foundation says, by way of example, "**Anyone who categorically rules out a common European bond has long since caused more damage politically than can be expected in terms of economic relief.** The impression of limited solidarity [is] economically just as risky as it is difficult to bear in humanitarian terms. **Norbert Röttgen**, chairman of the

Foreign Affairs Committee and candidate for CDU party chairmanship, also demanded “a clear signal that no one will be left to fend for themselves once the crisis in Europe has abated.” On 7 April in a special ZDF broadcast on the coronavirus, **Hüther** said that it was incomprehensible why Germany refused, at least during the crisis, to back down. The Italian supply industry alone was reason enough, and European solidarity even more so.

In Germany, it is all about political dynamics and symbolism

From a purely technical standpoint, both variants – ESM or ‘corona bonds’ – have their pros and cons in the eyes of their advocates. The key difference here lies in political dynamics: The ESM is anchored in the existing euro architecture, leaving fiscal sovereignty with the nation states. Risks are collectivised in accordance with rules and limits that have already been agreed upon. **According to Der Spiegel, the ESM is hated in the south whereas, in the north, bonds represent a “trauma from times gone by”.** The crisis has awakened unpleasant memories and a sense of being overburdened in the south while, in the north, it has intensified concerns about states being too dependent on each another. This is probably why bonds are styled in the south as being a shining beacon of European sovereignty, with the exact opposite being propounded in the north.

The politics of symbolism in either direction should not be underestimated. According to the German media, the question could have been whether a compromise is an exception in an exceptional situation. The complicated debate in Germany alone clearly highlights the stumbling blocks: Care needs to be taken – that the dynamics in the south are not directed against the EU, that the north is not excessively burdened and, above all, that the window for talks does not close. If that were to happen, **then European solidarity (which naturally must not be a one-way street) at its very core would be under threat. On the other hand, a system of permanent liability, in breach of the original terms of the contract and from which Germany is unable to escape, must be avoided.** The country already has its hands full with its own corona aid packages, an ageing population, generous social security systems and additional climate-protecting expenses, which means that, even without eurobonds, markets may well look to test the resilience of Germany in the coming years, according to German industrialist Wolfgang Reitzle, expressing his concerns in a commentary piece in ‘Die Welt’. Forging a compromise that is acceptable to all sides of the argument from positions that are partly motivated by political opportunism and partly founded on purely technical considerations, is set to be the great European political masterpiece of the year.

About the author

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