

Opinion of the European Economic and Social Committee on 'Growth and sovereign debt in the EU: two innovative proposals' (own-initiative opinion)

(2012/C 143/03)

Rapporteur: **Mr CEDRONE**

On 14 July 2011 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Growth and sovereign debt in the EU: two innovative proposals.

The Section for Economic and Monetary Union and Economic and Social Cohesion, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 2 February 2012.

At its 478th plenary session, held on 22 and 23 February 2012 (meeting of 23 February 2012), the European Economic and Social Committee adopted the following opinion by 121 votes to 46 with 11 abstentions.

1. Main recommendations

J. Monnet: "Europe can progress and unite only when goaded into action by crisis"

1.1 The EESC considers that the euro problem is primarily political rather than economic. The credibility of the euro has been undermined since rating agencies lost confidence that governments would take decisive action to avoid the default of debt distressed Member States. Recent responses such as the Commission proposal for Stability Bonds address only stability rather than growth⁽¹⁾ while the Council draft Treaty on Coordination and Governance⁽²⁾ suffers from an extensive "democratic deficit" in by-passing the European Parliament and other Union institutions.

1.2 The EESC also considers that the way out of what is a systemic Eurozone crisis does not lie in falling back on national egoism or curtailing rights, but in changing economic policies, boosting competitiveness and consolidating fairness, solidarity and cohesion. This would restore confidence from the public in the European project and the feasibility of restoring the European Social Model rather than the risks for all of failure to resolve the crisis, which could potentially lead to the very ideal of Europe faltering and failing.

1.3 The EESC believes that the EU institutions should not fall into the trap of responding only to rating agencies, even though they sometimes identify market weaknesses. The institutions are duty-bound to indicate an effective way out of the crisis to their own citizens which provides at the same time a project for the

future of the EU which can foster trust and optimism, and strengthen a sense of belonging and involvement in making a shared ideal of social progress and high levels of employment a reality. In particular, electorates need to see that stability is matched by growth, rather than only austerity, while robust economic growth could restore confidence and credibility in the Eurozone on financial markets.

1.4 In this regard, the EESC welcomes the steps undertaken by the European institutions in favour of a common budget and fiscal policy, although the measures taken so far are only partial and limited. However, it considers that, without prejudice to the immediate activation and use of the European Financial Stability Facility (EFSF) and subsequently the European Stability Mechanism (ESM), there is an urgent need to frame two practical proposals that can resolve the issue of growth (Eurobonds) and stabilise debt (Union bonds)⁽³⁾. These proposals would allow certain countries and the EU not to pursue a defence of the euro only by austerity, which damages social conditions, stifles growth and risks triggering recession.

1.5 In particular, in order to swiftly stimulate growth it is necessary to set up an economic, social and cultural recovery plan, a kind of "new European pact", comparable to the America's "New Deal" to enable Member States to enjoy

⁽¹⁾ European Commission, Green Paper on the feasibility of introducing Stability Bonds, COM(2011) 818 final, 23 November 2011.

⁽²⁾ European Council, Draft Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, 10 January 2012.

⁽³⁾ It should be noted that the definition of "Eurobonds" used in this opinion does not precisely match that from other sources. The European Commission's Green Paper analyses the feasibility of "Stability Bonds" in a sense similar to the "Union Bonds" proposed in the present opinion, but with the difference of assuming that such bonds would need either joint or several guarantees. Other proposals, such as those from Lorenzo Bini Smaghi use the term "Eurobonds" in the same context of gaining stability whereas, in this opinion Eurobonds refer to net issues of bonds to restore and sustain economic recovery. See further Von Weizsäcker, J. and Delpla, J. (2010). *The Blue Bond Proposal*, The Bruegel Institute, Policy Brief 2010: 3. Schmidt, C. M et al, (2011). Proposal for a European Redemption Pact, 9 November. Sachverständigenrat zu Begutachtung der gesamtwirtschaftlichen Entwicklung.

robust and sustainable development based on competitiveness, productivity, employment, welfare, prosperity and, above all, democratic consensus. This also would create the conditions to realize effective common economic and fiscal governance

1.6 A variety of bonds have been proposed as possible solutions to the present crisis, hand in hand with the necessary structural reforms ⁽⁴⁾ that the Member States should be encouraged and motivated to get under way. Yet a political weakness among them, including those in the Commission Green Paper, is that they include either joint or several guarantees by Member States, which has rendered them unacceptable to key governments, not least to that of Germany.

1.7 By contrast, the EESC submits that such guarantees and transfers are not necessary either to convert a share of national bonds to the Union, nor for net issues of Eurobonds. It also submits that bond finance would not encourage laxity in managing public finances if conversion of national debt to the Union were in a debit rather than credit account. Net issues of bonds would not be deficit financing rather than shift savings, including global surpluses, into investments that can enhance cohesion and enhance competitiveness.

1.8 The EESC therefore advocates the introduction of two complementary but distinct EU bonds: **Union Bonds** for stabilising debt, and **Eurobonds** for recovery and growth. The EESC recommends also the use of a share of the net inflows into Eurobonds to finance a **European venture capital fund**, which was one of the design aims of the European Investment Fund (EIF) ⁽⁵⁾.

1.9 Union Bonds – gradually converted national debt of up to 60% of GDP to Union Bonds – could be held in a consolidated but untraded debit account ⁽⁶⁾. Since they are not traded they would be ring fenced against speculation by rating agencies. But they would not need fiscal transfers. Member States whose debt is held in Union Bonds would service their share of them. The conversion would also mean that most of them would then be Maastricht compliant in relation to their remaining national debt. Greece would remain a special problem, but no more than that, and would therefore be manageable.

⁽⁴⁾ Starting from the fulfilment of the single market as suggested by the Monti Report.

⁽⁵⁾ Holland, Stuart (1993). *The European Imperative: Economic and Social Cohesion in the 1990s*. Foreword Jacques Delors. Nottingham: Spokesman Press.

⁽⁶⁾ Private bond holders would thus enjoy considerable advantages in terms of the risk of bankruptcy, in that national bonds would be converted on a one-to-one basis with Union bonds at the pre-existing interest rate.

1.10 The Stability and Growth Pact would not require revision in order to achieve this, but it would gain the credibility it currently lacks amongst markets and electorates since stability would be achieved without austerity. Furthermore, converting a substantial proportion (up to 60%) of the debt of the EU's indebted countries could be by an "enhanced cooperation" procedure. Those Member States preferring to do so could keep their own bonds ⁽⁷⁾.

1.11 Unlike Union bonds, Eurobonds issued to finance recovery and growth would be traded and could attract funds into the EU. The BRICS - Brazil, Russia, India, China and South Africa - reconfirmed in September 2011 that they were interested in holding reserves in euros in order to help stabilise the euro area. Doing so by means of Eurobonds rather than by national bonds could strengthen the euro as a global reserve currency and help the emerging economies achieve their ambition for a more plural global reserve currency system.

1.12 Eurobonds need not count on the national debt of Germany or any other Member State nor need joint or several sovereign guarantees. The European Investment Bank has been successfully issuing bonds without the need for recourse to national guarantees for more than 50 years and done so with such success that it already is twice as large as The World Bank.

1.13 Inflows of global surpluses to Eurobonds would restore the growth which is the most effective way to reduce debt and deficits as evidenced by the Clinton administration's second term in which the federal budget each year was in surplus. They could co-finance EIB investments which are serviced by the revenues of the Member States benefiting from them, rather than fiscal transfers between Member States.

⁽⁷⁾ Member States which wish to establish enhanced cooperation between themselves within the framework of the Union's non-exclusive competences may make use of its institutions and exercise those competences by applying the relevant provisions of the Treaties, subject to the limits and in accordance with the detailed arrangements laid down in Article 20 (TEU) and in Articles 326-334 (TFEU). Enhanced cooperation should aim to further the objectives of the Union, protect its interests and reinforce its integration process. Such cooperation should be open at any time to all Member States. The decision authorising enhanced cooperation should be adopted by the Council as a last resort, when it has established that the objectives of such cooperation cannot be attained within a reasonable period by the Union as a whole, and provided that at least nine Member States participate in it. Acts adopted in the framework of enhanced cooperation bind only participating Member States and should not be regarded as part of the *acquis* which has to be accepted by candidate States for accession to the Union (Article 20 TEU). All members of the Council may participate in deliberations on an enhanced cooperation procedure but only the members of the Council representing the Member States participating in enhanced cooperation shall take part in the vote (Article 330 TFEU).

1.14 Such bond-financed and investment-led growth within the EIB Group's convergence and cohesion remit since the 1997 Amsterdam Special Action Programme could achieve the macroeconomic level for fiscal transfers.

1.15 **Cohesion** would be increased. Eurobonds could co-finance EIB investment projects for which the EIB has already received a mandate since 1997 to promote cohesion and convergence in the following sectors: health, education, urban renewal, environment, green technologies and support for small and medium-sized enterprises and start-ups in the new technology sector.

1.16 **Competitiveness** would be boosted, with a share of the capital flows attracted by issuing Eurobonds financing a venture capital fund for small and medium-sized enterprises. This could enable a European *Mittelstandspolitik* (SME policy), which was one of the design aims for the European Investment Fund, which now is part of the EIB Group.

1.17 While the European Central Bank is the guardian of stability, the EIB Group can safeguard growth when its investment projects are co-financed by Eurobonds. After the 2008 financial crisis, the EIB was asked whether it would hold and issue bonds for debt stabilisation. It declined, which was understandable at the time. But the parallel main design aim for the European Investment Fund was that it should issue the Union Bonds proposed by Delors in the Commission 1993 White Paper on *Growth, Competitiveness, Employment*. As part of the EIB Group, and drawing on the EIB's experience in successful bonds issues, the European Investment Fund could undertake net issue of Eurobonds (see further, section 5.2 to 5.8 of this Opinion).

1.18 Eurobonds thereby could co-finance a European plan for growth, and a "European Growth Pact" bringing together all its most dynamic players – businesses, trade unions and associations – in a pact that would be a powerhouse for practical responses to the current crisis. This would be a European "New Deal" along the lines of the American precedent, capable of restoring growth and employment, cutting debt, regaining trust and hope in the future of the EU – and in particular reducing youth unemployment.

1.19 At the same time a procedure will have to be put in place to tackle the crucial issues the EU faces without delay: the fiscal and **economic dimension**, as addressed at the Brussels summit on 8 and 9 December 2011, that should also include strengthening the ECB as a guarantee of financial stability; the **social dimension** and the **political dimension**, to fill the current democratic deficit and speed up the decision-making process. In practice, this means removing all the constraints limitations (especially the constraints of the decision making process and the political weakness) that have prevented, and continue to prevent, the EU from acting swiftly and effectively, not only in order to support the euro but also so as not to endanger its own existence and purpose by aggravating its decline.

2. Background

2.1 The primary aim of the present opinion therefore is an Action Programme that can be implemented from now, without needing new institutions, or Treaty revisions, and which can lay down the foundations for a common management of the euro area debt. In recognising the need to reduce unsustainable levels on national debt, this opinion therefore complements others already issued or being drafted by the EESC addressing the issue of growth, industrial and financial policies, productivity and competitiveness

2.2 After the 2007/08 financial crisis, it was hoped that the worst was over. Tackling the crisis was very costly for the people of Europe and brought about a rise in public debt. But two years on, despite the short-term rise in national debt being due to the cost of salvaging banks, the focus of blame shifted from private to public debt.

2.3 With the attack on countries deemed most vulnerable, the euro area's fragility has been fully exposed, despite its total national debt – which still needs to be reduced and brought under control – being lower than that of the USA. The measures put in place, albeit belatedly, constitute a major step forward, but are not enough because the crisis is systemic and does not hinge upon the debt of one or another country in particular.

2.4 This has clearly pinpointed a crucial problem for the survival of both the euro area and of the European project itself: "who lays down the law and who has the final say?". European civil society has now clearly understood that it is no longer elected governments who control the situation, but rather unelected bodies who have taken their place. The risk, then, is not only for the legitimacy of individual governments, but also of the survival of the democratic process at European level.

2.5 Up until 2008, the euro was untouched by currency fluctuations and strengthened against the dollar to become the second global reserve currency. One of the reasons why this changed and the euro came under attack is that until the Greek crisis the rating agencies had assumed that the Union would not allow a Eurozone Member State to go under. When there was no rapid solution to the Greek crisis, spreads on new bond issues soared. It was lack of political will to agree to a solution of the sovereign debt crisis in Europe over two years that encouraged rating agencies to downgrade the debt of a succession of Eurozone Member States and which now is affecting the core as well as the periphery.

2.6 Notwithstanding the need to consolidate the debt (gradually, so as not to kill the "guilty" patient, instead of curing it), the EU ought to act with greater determination. Hamstrung by the need to not exacerbate their public finances, and worn out by slow growth, the Member States (and not just the most

indebted ones) have been inert, as has the EU, or at least slow to take decisions. Nor have bond markets been reassured by a policy response of restraint, austerity and cuts, when this risks low or negative growth.

2.7 One dimension of this is to displace that one country's surpluses are other countries' deficits. Another is a misplaced perception of the "crowding out hypothesis" and a parallel misperception that cutting public investment and spending necessarily will "crowd in" private investment and spending. It also has been overlooked that in some EU cases where earlier austerity programmes in smaller Member States were followed by an economic recovery, this was under conditions in which the EU as a whole was expanding demand for exports, and in several cases accompanied by depreciations of currencies which now is not an option for Eurozone Member States.

2.8 What the EU needs is to regain the confidence of the people of Europe that the single currency is to their mutual advantage. This implies an economic, social and cultural Action Programme and a "new European pact", along the lines of America's "New Deal", whose success encouraged President Truman to back The "Marshall Plan" which, as well as aiding recovery in the post-war period, enabled all European countries to enjoy sustained development based on competitiveness, productivity, employment, welfare, prosperity and, above all, consensus (participation and social partnership).

2.9 Such a perspective, including both stability and growth, would generate the political consensus for further instruments of common economic and fiscal governance. It defies reason to have a common currency yet 17 different national debt management policies. Yet a budgetary policy of fiscal austerity is not enough to redress this. What are needed are both consistent debt management strategies and common financial instruments which can fund European growth at a time when excess national debt levels are being reduced.

2.10 The EU's response to the crisis cannot be reduced to the words "restraint, austerity, cuts, sacrifices", regardless of the consequences. This is to say nothing of the judgment and distinction between the "virtuous" and the "non-virtuous", which often does not do justice to the truth and the actual responsibilities. Such an approach generates resentment, selfishness, rancour and bitterness, including culturally, and is leading Europe down the path of petty revenge and dangerous populism. At the top, there is a misdiagnosis, a moralistic view of the crisis that is preventing the so-called virtuous helping the others.

2.11 The austerity-growth equation is a dilemma that the EU must move away from, with the consent of the people by taking action simultaneously on two levels; as set out in the following paragraphs.

2.12 On the one hand, a new, more advanced proposal needs to be drawn up on the sovereign debt issue, a proposal based on common solidarity and Treaty principles that provides for the reduction of debt levels, and maintains Member States' responsibility, while deterring speculative attacks. Defending the euro, which is primarily a political issue, would benefit all countries, particularly the richer ones, and avoid the paradox of the initial dream of a single currency becoming a nightmare for the people of the EU.

2.13 The second proposal should aim to win the confidence of the people of Europe. It is thus necessary to put in place an economic, social and cultural Action Programme to realise the ambitions of the 2020 European Economic Recovery Programme, backed up by the requisite funding. The EU also needs a big idea, a kind of "new European pact", along the lines of America's "New Deal", for example. The "Marshall Plan", as we know, as well as aiding recovery in the post-war period, enabled all European countries to enjoy sustained development based on competitiveness, productivity, employment, welfare, prosperity and, above all, consensus (participation and social partnership).

2.14 The EU should therefore make every effort to respond with one voice to the questions of the markets, which have shown their limitations, through their unfettered, unregulated actions. Yet this does not depend on the unanimous support of all the Member States for new financial instruments. The "enhanced cooperation" principle can be brought to bear in this area. Rather than reducing the euro area to a "hard core" of countries, who could suffer loss as a result, countries under speculative attack should be allowed to transfer a significant portion of their own debt to a European debit account, to the advantage of all the Member States.

3. Union Bonds to stabilise national debt

3.1 In Europe, sovereign debt is no longer sovereign. The limitations and mistakes of the EU and of individual countries, together with the lack of an effective framework to supervise and invigilate financial institutions, have facilitated predation against national currencies⁽⁸⁾. Exploiting also the poor management of public finances, the sovereignty of some vulnerable Member States has deteriorated.

3.2 The EESC considers it vital to consolidate disciplined public accounts in certain countries, not least through fair and agreed structural reforms. In the longer term there could be a fiscal union with a minister for the economy and treasury of the euro area. It defies reason to have a single monetary (and budget) policy and 17 different debt policies. But right now,

⁽⁸⁾ See the EESC opinion on the *Proposal for a Regulation of the European Parliament and of the Council on amending Regulation (EC) No 1060/2009 on credit rating agencies*, OJ C 54, 19.2.2011, p. 37.

urgent measures are needed to stabilise national debt, together with common management of Member State budgets by means of EU supervision.

3.3 A higher political profile also should be given to the fact that, while some Member States are deeply indebted, the Union itself has next to no debt. Until May 2010 and the beginning of national debt buy-outs it had none at all. Even after buy-outs and bank rescue operations, Union debt is little more than one per cent of Union GDP. This is less than a tenth of the debt to GDP ratio of the US in the 1930s when the Roosevelt administration began to shift savings into investment through the expansion of US Treasury bonds⁽⁹⁾. **Unlike the US, the EU has a late starter advantage on bonds.**

3.4 Sovereignty can be restored by means of the Union, enabling government, rather than the financial markets to govern, which can be supported by tightening the supervision and responsibility of financial market participants, including credit rating agencies. This can be done, however, without debt buy-outs or joint sovereign guarantees or fiscal transfers. For example, in funding the New Deal, the Roosevelt administration did not buy out the debt of Member States of the American Union, nor require them to guarantee US Treasury bonds nor demand fiscal transfers from them. The US funds its Treasury bonds from federal taxes, whereas Europe does not have a common fiscal policy. However, Member States can finance the share of their national bonds converted to Union Bonds without fiscal transfers between them.

3.5 With a strategy of austerity in response to financial markets, the European Economic Recovery Programme has been displaced. Most electorates are not even aware of the Union's commitment to it, yet are well aware that they are being asked to accept sacrifices for the rescue of banks and hedge funds. There is little awareness amongst the wider public of the term European Economic Recovery Programme or EERP.

3.6 The conversion of a share of national debt to the Union could also be on an enhanced cooperation basis, with key Member States, including Germany, retaining their own bonds. According to the Lisbon Treaty, enhanced cooperation is between a minority of Member States. Yet the introduction of the euro itself was a de facto case of enhanced cooperation amongst a majority. The Bruegel institute has proposed a new institution to hold the conversion of national sovereign debt to the Union⁽¹⁰⁾. But a new institution is not needed.

⁽⁹⁾ The US did not opt for deficit financing until Roosevelt's second term. But the main driver for recovery from the Depression in both his first and second administration was by bond-financed social and environmental investments which Europe could parallel now in order to achieve recovery.

⁽¹⁰⁾ Von Weizäcker, J. and Delpla, J. (2010), *The Blue Bond Proposal*, Bruegel Policy Brief 2010/03.

3.7 The converted share of national debt into Union Bonds could be held by the EFSF (then by the ESM) in a dedicated conversion account rather than traded⁽¹¹⁾. This would ring fence the converted bonds from speculation. The investors would keep their assets until maturity of the bonds at their prevailing rate of interest. This would also avoid moral hazard because bonds in a debit account could not be used for net credit creation. The advantage for both governments and bond holders is that the risk of default by some Member States thereby will be significantly reduced.

4. Eurobonds, to restore recovery and sustainable growth

4.1 Recent developments have highlighted the need for the Union to pursue common economic and social governance in line with the unity created through the common currency, in order to better address increasing macroeconomic imbalances. So far, however, the Commission and European Council only have addressed stability, displacing the need to restart growth.

4.2 This neglects both the social dimension and global dimensions of protracted austerity despite the importance for the emerging economies of sustained European demand for their exports. It also neglects that funding the restoration of growth need not be by fiscal transfers between Member States rather than by a recycling of the surpluses of the emerging economies.

4.3 For example, one of the points made forcefully by a number of proposals appearing in the press that echo the Bruegel proposal and the earlier 1993 proposal of Union Bonds to Delors, was that net issues of Eurobonds would attract surpluses from the central banks of emerging economies and sovereign wealth funds, producing a multiplier effect.

4.4 These financial inflows to Eurobonds could turn the commitment since 2008 of the Member States and the European Parliament to a European Economic Recovery programme into a reality. Although the initial flotation of the bonds would be incremental, the cumulative inflows from a share of the almost USD 3 trillion of the surpluses of the central banks of the emerging economies and sovereign wealth funds would be substantial.

4.5 The inflows could well come to match or exceed the Commission's own resources and do so without the fiscal transfers which Germany and some other Member States oppose. They also could co-finance investments by the EIB Group in the cohesion areas of health, education, urban renewal and the environment.

⁽¹¹⁾ Private holders of bonds that cannot be traded on the market could if necessary sell them to the ESM at nominal value, up to the established ceiling.

4.6 The 1997 Amsterdam Special Action Programme gave the EIB a mandate regarding the cohesion and convergence objectives, since when it has successfully quadrupled the volume of its loans for investment finance. A further quadrupling of investments by the EIB would be equivalent to US post-war Marshall Aid ⁽¹²⁾. Nonetheless, unlike the Marshall Plan or the Structural Funds, its finance would not be grant-based but would shift savings into investment. Through economic multipliers, such investments would generate sustained demand in the private sector and employment growth. This would restore confidence both on markets and among the public that austerity could be replaced by higher standards of living and wellbeing. Growth and higher levels of employment also would generate direct and indirect tax revenues that could assist debt and deficit reduction.

5. The legal and institutional context of the proposal

5.1 *Union Bonds and the European Financial Stability Facility*

5.1.1 The EFSF could hold the share of national debt converted into Union Bonds in a dedicated conversion account. This would be consistent with its stabilisation remit. It could do so even though it is due to be replaced by the ESM in July 2012. The converted debt could then be held by the ESM.

5.1.2 The principle that debt converted into Union Bonds should not be traded would have safeguarded the EFSF from downgrading by rating agencies and bond markets. Holding the bonds in a debit account should reassure Germany and other Member States that national bonds converted into Union Bonds could not be used for credit creation.

5.2 *The EIF Design and Eurobonds*

5.2.1 The ECB need not be involved in net bond issues. The initial design for the Union to issue its own bonds was that this should be by the European Investment Fund, which was set up in 1994 and has been part of the EIB Group since 2000. The primary design role for the EIF was for common bonds to counterpart a common currency. Its secondary design was financial support for small and medium firms and new high tech start-ups, which has been its sole role since 1994 ⁽¹³⁾.

5.2.2 The initial EIF design recognised that a single currency would deprive Member States of devaluation as a means of

balance of payments adjustment, and that there was no political support for fiscal transfers on the scale recommended by the MacDougall Report ⁽¹⁴⁾. But, drawing on the precedent of the New Deal, it recognised also that European bonds could finance structural, social and regional policies which had been the intent of the 1956 Spaak Report for a Common Market ⁽¹⁵⁾. This also was consistent with the aims of the MacDougall Report for "structural, cyclical, employment and regional policies to reduce inter-regional disparities in capital endowment and productivity".

5.3 *The EIF Design for Venture Capital*

5.3.1 The 1993 recommendation that the EIF should support small and medium firms was not only for equity guarantees or for loans to SMEs but for a European venture capital fund with a budget of up to 60 billion ecu and a special remit to finance high tech start-ups.

5.3.2 Financed by EU Bonds, this would be invested over several years but would have macro potential. Sound management of the fund, in cooperation with national credit agencies and regional development agencies with knowledge of local SMEs, should ensure that the bonds could be financed by returns on the equity capital, whenever the performance of these enterprises so allows.

5.3.3 The aim was that this would offset the lack of private venture capital in Europe relative to the US, reduce the dependence of SMEs on fixed interest borrowing which penalised new start-ups before they could secure a market, and thereby reinforce micro innovation and competitiveness with macro economic and social gains.

5.3.4 A venture capital rather than loan guarantee role for the EIF was neglected when it was set up in 1994, with the outcome that until it was brought into the EIB Group in 2000 it had guaranteed only 1 bn ecu for SMEs. Its original design for a micro instrument with macro effect was only recovered by the September 2008 Nice Ecofin which scheduled EUR 30 bn for support for SMEs, yet still only through loans rather than equity.

5.3.5 A venture capital fund role for the EIF rather than only loans should be reconsidered as part of the net issues of Eurobonds to complement the conversion of a share of national debt to the Union.

⁽¹²⁾ An opinion poll carried out in mid-1950 interviewed 2 000 people in France, Norway, Denmark, Holland, Austria and Italy. In all, 80 % knew of Marshall Aid and between 25 % and 40 % had an understanding of how it worked.

⁽¹³⁾ Stuart Holland (1993). *The European Imperative: Economic and Social Cohesion in the 1990s*. Op. Cit.

⁽¹⁴⁾ From 5 % to 7 % of GDP - European Commission (1977). *Report of the Study Group on the Role of Public Finance in European Integration*.

⁽¹⁵⁾ Intergovernmental Committee on European Integration (1956). *Report on the General Common Market* (The Spaak Report).

5.4 The EIB

5.4.1 The EIB has always issued its own bonds and has expressed a clear preference for retaining their identity, distinct from EU bonds. This is justified. First, the EIB issues its own bonds primarily for project finance, and wishes to retain this specific identity. Second, there was the presumption that servicing Eurobonds would need fiscal transfers, whereas the EIB serviced its own from revenues on project finance. Third, that the fiscal transfers could need an increase in Commission own resources which would be improbable. The EIB also was concerned that its own credit rating might be downgraded if it becomes involved with debt stabilisation,

5.5 Complementary EIB and EIF roles

5.5.1 But these reservations would not apply for net issues of Eurobonds by the European Investment Fund. Although part of the same group, the EIB and the EIF are different institutions. As such, EIF Eurobonds would be distinct both from EIB bonds and from the Union Bonds for debt stabilisation held by the EFSF.

5.5.2 EIF issues of Eurobonds could complement EIB bonds in joint project financing. The servicing of the bonds could be from revenues gained from investment projects rather than from fiscal transfers. The EIB would retain control, with the projects dependent on its approval, and managed by it, thereby safeguarding its integrity in project management.

5.5.3 Where it needed commitment from local partners, which is important to it, the EIB could gain this by cooperation in project management with national credit institutions such as the *Caisse des Dépôts et Consignations*, the *Cassa Depositi e Prestiti* and the *Kreditanstalt für Wiederaufbau*.

5.6 EIF bond management

5.6.1 The EIF would need a new business plan to manage the open market issues of the bonds which was central to its initial design. This would need a team with high professional competence, but it could draw it from the EIB and liaise with national debt agencies. Since its issuance of Eurobonds would be incremental, it could also build the new team over time.

5.6.2 Ecofin is the governing body of the EIB Group. **It would not need a Treaty revision** in order to decide that the EIF should issue Eurobonds, any more than when the EIF was established in 1994.

5.7 The criteria for a European Economic Recovery Programme do not need to be decided by Ecofin or need a proposal from the Commission. The EIB has been given both cohesion and convergence remits by the European Council since the Amsterdam Special Action Programme and the Luxembourg 1997 and Lisbon 2000 European Councils to invest in health, education, urban renewal, the urban environment, green technology, financial support for small and medium firms and new high-tech start ups as well as the trans-European transport and communications networks.

5.8 Since 1997, the EIB has successfully quadrupled its annual investment finance to the equivalent of two thirds of the Commission's own resources. Quadrupling these again by 2020, aided by co-finance from investment in Eurobonds by the central banks and sovereign wealth funds of surplus economies, could turn the European Economic Recovery Programme into a reality. This is especially the case given the evidence that investment multipliers are as high as three, and therefore double to treble fiscal multipliers⁽¹⁶⁾.

Brussels, 23 February 2012.

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⁽¹⁶⁾ J. Creel, P. Monperrus-Veroni & F. Saraceno (2007). *Has the Golden Rule of public finance made a difference in the United Kingdom?* Observatoire Français des Conjonctures Économiques, Working Papers 2007-13.