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## Bonds for the euro

The souring of relations within the eurozone long seemed to be pushing the prospect of common bonds into the realm of impossibility. Undaunted, the European Commission has insisted on putting the idea of eurobonds back on the table. That is where it belongs.

An open-minded discussion of the merits of pooled bonds is more timely than ever. In order to have one, a misunderstanding must be avoided: that eurobonds are an exodus from an Eden where each country is insulated from risks created by the policies of others. The crisis can leave nobody in doubt that the eurozone members' interdependent vulnerability is already acute. The question is whether eurobonds are the best way to manage and delineate this interdependence.

The Commission's green paper is a good starting point. It covers many of the basic design questions and outlines options for how common issuance would interact with the national issuance now practised. If the eurozone does agree to pool its borrowing, the superior option by far is the one based on a dual structure (often called "blue" and "red" bonds) that uses common bonds for debt up to 60 per cent of a country's gross domestic output and national bonds for financing above that limit.

Despite German brush-offs, there are good reasons why this proposal should rise to the top of the eurozone's political agenda. It would be a lifeline for states now facing a run on their debt. An ability to refinance up to 60 per cent of GDP into jointly guaranteed bonds would prevent usurious interest rates for several years – enough time, if there is will, to put public finances on a sustainable path.

Nobody is better placed to push for eurobonds than Spain's prime minister-elect, Mariano Rajoy, who must implement reforms without delay. To garner support for painful measures, he must show voters that Europe is willing to help. With public debt lower than Germany's, Mr Rajoy has a good case to make to Chancellor Angela Merkel for solidarity with Spain.

Ms Merkel herself is pushing her party to contemplate more eurozone fiscal integration. Her domestic opponents on the left support the idea. And there is something even for Swabian housewives to like in it: the upper limit on common bonds would amplify market discipline above that level.

Berlin is right that this is no "panacea". But leaders look not for panaceas but for politically acceptable policies that work. Rejecting eurobonds out of hand is no way to find out whether they fit the bill.

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