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by Alberto Quadrio Curzio

1. Foreword

Since 2004 I have dealt with proposals to introduce Eurobonds and establish some kind of European Fund. I have discussed this topic, directly or indirectly, in a number of articles that have appeared in the Italian newspapers *Il Sole 24 Ore* (Quadrio Curzio, 2004; 2005; 2008a[1]; 2008c; 2008d; 2008e[2]; 2008f) and *Corriere della Sera* (Quadrio Curzio, 2009a; 2010a; 2010b; 2010c; 2010d; 2011a; 2011b). I have also considered the Eurobonds question in essays published in the review *il Mulino* (Quadrio Curzio - Miceli, 2008; Quadrio Curzio 2009b; 2010f) and in *Economia Politica* (Quadrio Curzio 2008b; 2010e), as well in the volumes *I fondi sovrani* (Quadrio Curzio - Miceli, 2009) and *Sovereign Wealth Funds* (Quadrio Curzio - Miceli, 2010).

Sections 2-7 of this essay are the English translation of the article «A proposito di bond europei» (Quadrio Curzio, 2011c), with changes only in the paragraph titles (the figures, which have changed since Spring 2011, have not been updated). The following part (Section 8) is an excerpt of «EuroUnionBond, here is what must be done» (Prodi - Quadrio Curzio, 2011), in which Romano Prodi and I argue that further innovation is necessary. In that article we proposed a European Financial Fund (EFF), whose task would be to issue a new type of bond, called «EuroUnionBond» (EuB). Finally, there is an Addendum (Section 9) written for this essay.

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[1] Also translated in English and published as *A Sovereign-wealth Fund with Europe's Gold*, in Quadrio Curzio, 2008b, pp. 376-378.

[2] Also translated in English and published as *Europe is not only European Central Bank*, in Quadrio Curzio, 2008b, pp. 378-380.

2. A preliminary survey on Eurobonds

The long-standing debate on public bonds issued by a European «institution» began in 1993. In charting its development, I have chosen to discuss the more strictly political-institutional debate rather than the analyses of academic scholars, because the proposal of issuing European bonds has been more strongly influenced by political factors than by economic analysis, and the latter only recently addressed this specific topic.

From a political-institutional point of view, the most important questions that have come into play are centred on two different types of «bonds»: growth bonds and stability bonds.

Growth bonds were originally proposed by Jacques Delors in 1993 during his term of office as president of the European Commission. Delors proposed what can be called «Unionbonds» with the aim of financing European infrastructural investment. Thus Delors' basic goal was that of promoting economic growth. Stability bonds were proposed, among others, by Jean-Claude Juncker, the president in charge of the Eurogroup – the Economics and Finance Ministers of Euroland (the EMU) – and by Giulio Tremonti, the Italian Minister of Economy and Finance. In December 2010, Juncker and Tremonti «informally» called for the issuance of «Eurobonds», which were to be used for restructuring the public debt in the EMU Member States and, thereby, as a means for reducing the extent of speculative attacks.

It is no coincidence that I am making use of two different terms, *Unionbond* and *Eurobond*. It is important to emphasize from the very outset that notably different meanings and implications are associated with these terms, even though later statements have combined the two expressions in the proposal for issuing what we shall call *UnionEurobonds*. Finally, bonds of a third type have recently been discussed: the so-called «Projectbonds», which are to some extent already in use.

In addition to the above proposals there are others originating from the European Parliament and the European Commission. The European bond proposal has drawn the support of leading politicians in Italy, such as Giulio Tremonti himself, as well as of public figures such as Carlo Azeglio Ciampi, Romano Prodi and Giorgio Napolitano.

In the following I shall discuss the economic aspects of the various proposals, explicitly disregarding the legal aspects concerning their compatibility with existing European Treaties.

3. Unionbonds

In 1993, Delors' well known white paper on *Growth, Employment and Competitiveness* proposed the issuance of Unionbonds, with the EU budget as collateral, as a means to finance investment in large infrastructural projects. The aim was to stimulate growth by issuing long-term securities to finance large trans-European infrastructures (in fields such as energy, transport, telecommunications and environment). A further assumption was made that the promoters of the projects themselves (public and private sector institutions) would be the beneficiaries of expected returns.

These promoters would consequently also be responsible for paying the capital and the interest, while the European Union would act as a guarantor for securities. In this scenario the EIB (European Investment Bank) was intended to fulfil the role of an «advisor», but also to act as an agent on behalf of the European Commission for the issues.

Nothing has come out of this proposal apart from the EIF (European Investment Fund), which is a limited operational instrument of the EIB specialised in risk capital financing for the purpose of promoting small and medium enterprises (SMEs) that are experiencing rapid growth or operating in new technology sectors.

Two Italian MEPs (M. Mauro and G. Pittella) made explicit reference to the Unionbond project in their September 2008 statement to the European Parliament «Eurobonds: a new strategy to support growth». This proposal was subsequently embraced by the overall majority of the European Parliament, marking an important political step forward.

In a recent interview published in the Italian newspaper *Corriere della Sera* (21.12.2010), Delors observed that Unionbonds would have an important role to play in financing large infrastructures, research, growth and employment. At the same time he voiced concern over the idea of using a financial instrument «merely to cover the deficits of the past».

Delors believed his approach could meet with the approval of Germany. But Delors' critical stance towards the Eurobond proposal failed to grasp its novelty in terms of the financial stability it offered by creating a large and highly liquid market of «European State securities», capable of competing with the American bond market.

4. The Bailout Fund or Stabilitybonds

As I already mentioned, on the December 5, 2010 an article appeared in the *Financial Times* bearing the joint signatures of Jean-Claude Juncker and Giulio Tremonti, wherein they proposed the issuance of Eurobonds aimed at a different purpose: restructuring the debt of the Euroland States. This article is a fundamental contribution, by virtue both of its content and of the current tide of circumstances affecting the EMU.

Juncker and Tremonti started out from the consideration that, in spite of the decisions taken by the fiscal and monetary institutions of the European Union and of the EMU, the state securities markets of the Member States of the eurozone continued to be under strong financial pressure. They therefore argued that the EU/EMU should send a strong signal to markets and to European citizens on the irreversibility both of the EMU itself and the single currency. Accordingly, they advocated the issuance of Eurobonds, called «European sovereign bonds», and issued by a European Debt Agency (EDA), which was envisaged as replacing the European Financial Stability Facility (EFSF), i.e. the facility commonly known as the Bail-out Fund.

Their proposal rested on two facts.

The first was that 2010 had been a veritable *annus horribilis* for the EMU, which had displayed great uncertainty and weakness: stop-gap remedies intended to address the Greek crisis were followed by somewhat makeshift attempts to tackle the Irish difficulties, and debate on the most appropriate action was set in a context that envisaged the whole gamut of possible scenarios. Hypotheses ranged from expulsion of «weak» States from the EMU and the euro, to the creation of a European dual currency market with one currency for the strong States and one for the weak States, and even to the suggestion that Germany should revert to the Mark, with the rest of the EMU left to its fate.

This confused situation was partly created by Germany itself, with Chancellor Merkel taking up a variety of positions. But an additional factor came in the form of speculation, which launched an assault against the EMU and the euro. The latter phenomenon can be illustrated by summarising the evolution of the exchange rate between the euro and the dollar. During 2009 the euro had continuously appreciated against the dollar, rising from 1.25 in March to 1.50 in December, but at the beginning of June 2010 it fell to 1.19. At the same time the interest rate spreads (seen as an expression of the measurement of risk) of public debt securities of the peripheral eurozone countries as compared to German rates reached very high levels (more than 10 percentage points in the case of Greece), triggering the fear that an Argentinian syndrome (partial debt repudiation) was about to befall certain countries.

The second fact was that the EMU had somehow succeeded in reacting to the crisis through the creation of the European Financial Stability Facility (EFSF), introduced following the May 2010 decisions by Eurogroup and Ecofin (the Finance Ministers of the EU) and operative from August onwards. This fund can issue bonds (which we call «Stabilitybonds») guaranteed by the eurozone Member States up to the accounting maximum of € 440 billion, for lending to Member States of the euro area that are struggling with a budget deficit, subject to negotiated conditions. But in practice, according to various estimates it will not be possible to go beyond € 250 billion of lending, as the attribution of the «triple A» credit rating requires a total value of guarantees higher than the effective level of debt. On the other hand the EFSF does have a provision for an additional quota from the European Commission and the IMF (International Monetary Fund).

The Fund's first bond issue, which raised € 5 billion, was extremely successful, not only because the issue was assigned the maximum credit rating by the specialised agencies but also because of the € 44.5 billion demand it received, enabling the operation to close with a rate of 2.89%.

Of the € 5 billion raised, € 3.3 billion will be used to finance the restructuring plan of the Irish Republic. This means the funds raised will be used to aid a State whose financial disaster has not prevented the market from welcoming the emission of EFSF's bonds.

The EFSF, which will operate in this form until 2013 and will then be transformed into a permanent system of conditional intervention (European Stabilization Mechanism, ESM) designed to avert the outbreak of new crises, marks a noteworthy innovation in the context of *de facto* reinforced co-operation among eurozone States. This has confirmed that the EU can indeed function properly when it avoids the bureaucratic approach of the Commission.

Two further and still on-going trends have emerged from the Bailout Fund (the EFSF). The first concerns the above-mentioned transformation of the latter institution into a permanent fund after 2013. However, it is not yet clear whether this decision will require that holders of State bonds of countries supported by the fund should also share part of the losses deriving from debt restructuring. It is likewise unclear what additional constraints will have to be imposed on the Growth and Stability Pact in order to preclude the possibility of the fund becoming an incentive for Member States to embark on risk-taking projects. The second trend refers to the enlargement of the financial reserves of the fund itself, which in the view of certain Member States should be greatly increased. This view is also shared by the IMF and the ECB, or at least by its Chairman Jean-Claude Trichet.

5. Eurobonds

Let me now turn again to the Juncker-Tremonti statement, an important proposal, although its conciseness might induce to draw certain conclusions that are not actually implied. I will comment on the proposal with reference to the EMU (and not to the EU), since in my opinion the EMU is the only economic aggregate capable of organising the EDA (European Debt Agency), which would in turn become complementary to the ECB.

According to the proposal, the EDA should place bonds on the market in an amount equal to 40% of the GDP of the EMU and thus of the eurozone Member States. This would be designed to create a market for European sovereign debt securities with high liquidity and of dimensions comparable to that of the United States' public debt securities (which, as is well known, have flooded the world due to the absence of any comparable high-liquidity securities). On the basis of these securities the EDA should then purchase national debt securities of the Member States, both during issuance and on the secondary market, for the purpose of acting as their creditor and thereby replacing the market itself.

To clarify this point, I shall give a purely hypothetical example: since the GDP of the eurozone is roughly € 9,000 billion, 40% of this figure amounts to € 3,600 billion. The consolidated public debt of the EMU countries is 80% of their aggregate GDP, equal to € 7,200 billion. If we assume that € 3,600 would be absorbed by the EDA and that Member States would not increase their debt share in the market, then the aggregate (non-EDA) public debt of the EMU towards the market would be reduced by 50% and its weight on GDP would now be 40%. Naturally, however, the effects on each Member State would vary according to their individual level of public debt. Italy, for example, which has a public debt equal to 118% of GDP, would see its level of market indebtedness decrease to approximately 80% of GDP. But it should be borne in mind that the above assumption would hold on condition of a substitution effect, whereby Member States would use their share of Eurobonds to decrease their stock of public debt and not to increase their level of overall exposure (towards the market and the EDA), as this would imply taking unfair advantage of the Eurobonds.

The EDA would purchase the national debt securities of the Member States at higher prices than normal investors, since EDA would not require a risk premium to retain the securities to maturity.

This state of affairs would have many beneficial effects for all parties involved.

First, it would benefit Member States. The market pressure on debt securities of Member States experiencing difficulty would decrease, and at the same time the financial burden of servicing the interest on these bonds would likewise diminish. The resulting situation would allow those States to adjust more easily their budget deficit and public debt, but would not induce them into moral hazard, as any increase in their debt would imply operating through the market, and this would mean paying higher interest rates. In addition, the above mechanism could also mitigate the potential negative knock-on effects – i.e. the attendant risk of contagion – which could adversely affect the debt securities of all Member States in difficulty.

Secondly, the above state of affairs would be beneficial to the ECB, as the latter would not have to operate in the secondary market, purchasing national bonds of Member States in difficulty. This would stand in marked contrast with the current situation, in which such securities, if left unsupported, would collapse and make any further bond issue impossible.

Thirdly, private operators would also see considerable benefits. For such operators, which also include banks, the possibility of exchanging their national debt securities for Eurobonds at a discount rate would make their losses transparent. Furthermore, Eurobonds would be accepted by the ECB as a collateral at improved conditions.

Finally, the EDA would also benefit from the proposed setup, as it would reap a profit from the purchase of the national debt securities of the Member States at a discounted rate, thereby reducing the cost of borrowing.

Formulated in early December, just before the Eurogroup meeting, the Juncker-Tremonti proposal was expected to be put on the Agenda of the European Council of Heads of State and Government Representatives in mid-

December. But no such item actually appeared on the agenda, due above all to Germany's marked aversion to Eurobonds, which towed France into a negative appraisal as well. The debate has heated up, especially between Juncker and Chancellor Merkel. It has been argued that Merkel was and is concerned that Germany could see a worsening of the rates at which it currently finances its own public debt. Moreover, it should be borne in mind that Germany is the Member State paying the lowest interest rates on its debt, inasmuch as it has the maximum credit rating. Yet the reasoning behind this line of thinking is not convincing, as Germany would have to refinance only a minor part of its own debt (the Germany's level of market indebtedness would, in fact, decrease, after the Eurobonds issue, to approximately 52% of GDP); furthermore, the advantages indicated above (including an aspect highly prized by Germany, namely an ECB loyal to monetary orthodoxy), are quite apparent.

Among the many negative assessments of Chancellor Merkel's attitude, the sharpest criticism has come from Helmut Schmidt, the former German Chancellor whose seminal contribution paved the way to the creation of the European Monetary System. In an interview with the Italian newspaper *Corriere della Sera* (16.12.2010), Schmidt went as far as saying that Chancellor Merkel was acting «inconsiderately» and that she is at the head of a «government full of people learning the craft only after taking office».

6. UnionEurobonds and Projectbonds.

The two proposals of Unionbonds and Eurobonds described here may be combined in the issuance of what I have called «UnionEurobonds». These would fulfil the twofold function of supporting the partial restructuring of the public debt of Member States and financing large European infrastructures. This was the view expressed by Mario Monti in his report «A new strategy for the Single Market», initially commissioned by, and then submitted to, the President of the European Commission José Manuel Barroso in May 2010.

However, in the light of subsequent statements by Monti himself (*Corriere della Sera*, 2.12.2010), the proposal now seems to be guided by a different goal: to create a large European securities market with high liquidity and therefore capable of competing with the bond markets of the United States and Japan. This argument is based on the belief that the absence of a Europe-wide market makes Europe suffer a loss of capital, partly due to its lack of attractiveness to investors (such as pension funds, sovereign funds, etc.), and partly because many EMU countries are now compelled to purchase those securities at higher interest rates than could otherwise be obtained. The German state securities cannot perform the function to compete with US bonds as their market remains limited.

In the current state of affairs the priority for the eurozone, and for the euro in particular, is the safeguarding of the national securities of Member

States, the consolidation of the public finances of the eurozone Member States, and the creation of a market for European debt securities capable of competing with the markets of the United States and Japan.

Another type of issuance that could be set immediately alongside the Eurobonds, without having to tackle the complexity of managing UnionEurobonds, and without creating any confusion on the market, is that of Projectbonds. Such bonds have found support from the President of the European Commission, Manuel Barroso. In his speech on the state of the Union in September 2010, Barroso mentioned the need to find new sources of financing through the EIB and to make progress in public-private partnerships in order to boost European infrastructures. Similar thoughts were put forward during 2010 in a proposal of the European Commission, which focused on Projectbonds issued by private institutions but guaranteed by the budget of the EU and by the EIB with the aim of attracting private funds.

It is also worth noting that some forms of Projectbonds already exist in practice: certain instruments were set up for various projects financed by the EIB and by the «Marguerite fund», launched during the French Presidency of the European Council in the second semester of 2008. This European share fund was approved by its «core sponsors», namely the deposit and loan banks (or similar private/public financial intermediaries) of France, Germany, Italy, Poland, Spain, and the EIB, with the aim of promoting minority shareholding for new European infrastructure projects in the field of transport, energy and renewable energy.

These new Europeran financial instruments have considerable advantages. They are associated with long-term investments, they do not have a speculative character, and have institutional promoters of high technical competence and credibility, such as the deposit and loan banks, with the added benefit of the support of the European Commission.

This new scenario not only makes European debt securities more attractive to large investors such as pension funds, insurance companies and sovereign funds, but it also enables them to fulfil a function that is complementary to standard market operators (such as banks, private equity funds etc.). The latter, especially in the current post-crisis conditions, would be unable to provide direct financing for long-term infrastructure projects.

7. The Golden Euro-Development Bonds

The urgency of all the above issues has intensified since the 2008 financial crisis, although in the immediately previous years most pro-Europe thinkers had never truly dropped Delors' proposal of Unionbonds. As mentioned before, I have myself dealt with these issues in a number of previous articles (see above and the list of references at the end of this paper). I have also outlined more detailed proposals in a paper published in the review *il*

Mulino, as well as in the volume *Sovereign Wealth Funds* and in various contributions to this journal.

I proposed the creation of a golden Euro-Development Fund (henceforth identified as EDF), with the task of issuing public debt securities according to the following implementation techniques. First, the assets of the EDF should be constituted of gold reserves of eurozone countries, to be held as collateral. Such reserves would be otherwise inactive in central banks, at an equivalent value of € 220 billion, a euro-dollar exchange rate of 1.45 and a gold price set at a prudential level of 900 USD per ounce. On this basis, the EDF would easily be able to issue public debt securities for a total value of not less than € 1,000 billion, which would certainly find a market placement (including in the sovereign funds market), given its safety.

Second, the management of the EDF should be based on «quotas» (allocations of voting power) to be periodically reviewed and commensurate to the GDP levels of the EMU Member States. Quotas should be determined by following the criterion of increasing weight depending on the size of the gold reserves contributed to EDF by Member States, and decreasing weight according to the GDP-public debt ratio of each State. With regard to interest payment, assuming the issuance of ten-year bonds, the reference point should be the interest rate of German state debt securities with the same maturity term.

Assuming the latter to approximate 3%, this would imply a burden of interest to be paid on the € 1,000 billion equal to € 30 billion on a yearly basis. This would be 0.34% of the Eurozone GDP: a modest amount to which the countries of the EMU would contribute in proportion to their voting rights in the EDF. The redemption or renewal of securities, as well as other technical aspects, will not be considered here.

As to the way in which these funds would be used, the first destination would be the financing – only partial, as with Eurobonds – of national debt securities, on behalf of EMU States. These States would in turn be responsible for paying interest to the EDF on loans received. The rate should be higher than the interest EDF would have to pay to its subscribers, but still lower than the rates individual States currently have to pay on the market, given that all eurozone countries are forced to pay a risk premium, with the single exception of Germany. This would avert the danger not only of further weakening countries that are already in difficulties, but possibly of jeopardising the euro itself.

The second destination of these funds would involve the financing of merger operations within the banking and industrial system, prompting mergers of firms belonging to the EMU. The purpose of such merger operations would be to facilitate the restructuring of such enterprises and to strengthen their position. In no circumstances should political interference in the management of EDF be allowed. In this scenario Germany, jointly with France, would exert the greatest influence, a circumstance that could induce them to join EDF.

The third and last destination would be the strengthening of the internal infrastructures of the EMU.

Admittedly, the proposals[3] outlined above could be seen by some as not practically feasible, but in my view, the proposed Eurobond would be multifaceted, with numerous special features, including the role assigned to gold reserves. This scenario could see Italy contributing at a level not far below Germany, and higher than France, thereby reassuring these two countries, and in particular Germany, which in 1973 granted Italy a loan guaranteed by Italy's gold reserves.

8. EuroUnionBonds: the proposal of Romano Prodi and Alberto Quadrio Curzio

In view of the previous and other proposals, Romano Prodi and I have developed the idea of *EuroUnionBond* (EuB) in the article «EuroUnionBond, here is what must be done», published on *Il Sole 24 Ore* (23.08.2011), whose final section is reproduced here.

In that article, we argue that further innovation is necessary and we propose a European Financial Fund (EFF) issuing EuroUnionBonds (EuBs).

Some features of EuroUnionBonds are common to those of the bond types discussed above (i.e. Unionbonds, EFSF's Stabilitybonds, Eurobonds, Projectbonds). Similarities and differences also exist with respect to the golden Euro-Development Fund. The main difference concerns the fund budget: EDF would only be based on gold reserves; according to the new proposal (as explained later), EMU Member States will also have to confer other assets to EFF, like bonds and shares. There are also differences concerning computation of quotas and destinations of bonds, which in the new proposal do not include the financing of merger operations. As mentioned above, in the article «EuroUnionBond, here is what must be done», Romano Prodi and I have surveyed the features of the different bond types identified in the contribution published in *il Mulino* (with the exception of my proposal on the Euro-Development Fund).

Obviously we have updated data and news, with reference, for example, to the EFSF which, due to the amendments decided in July 2011, has increased to 780 billion euro the guaranteed capital and has got new powers. Moreover, we consider the increase in the price of gold.

[3] Concerning other economists' proposals consistent with the above framework, interested readers are referred to the Proceedings of the Astrid seminar of February 2, 2011 promoted by Franco Bassanini. In particular, the contribution to the above seminar by A. Favero and A. Missale (*EU Public Debt Management and Eurobonds in Euro Area Governance – Ideas from Crisis Management Reform*, DG Internal Policies, Brussels, 2010) is remarkable as it is the contribution by Edoardo Reviglio, which presents an overview of the context in which the current debate has arisen.

We report here the main features of the new mechanism, which were presented in the latter part of that article.

a) EMU member States should confer capital to the EFF in proportion to their stakes in the ECB. The capital should be constituted by gold reserves of the European System of Central Banks, the largest in the world with some 350 million ounces, worth around 450 billion euro. To place gold as collateral, the Bylaws of the ESCB and of the ECB would have to be amended (with an impact also on European Treaties, but not on the Central Banks Gold Agreements that deal with gold sales). These institutions could therefore become shareholders of the EFF as they are the ones conferring assets. Assuming that the capital paid up to the EFF be of 1,000 billion euro, each EMU member State will have to confer, in addition to gold, other assets such as bonds and shares assessed at real estimated values and not at devalued market values. Italy should confer a total of 180 billion, of which 79 million ounces of gold reserves, valued to date at some 101 billion euro, plus another 79 billion euro that we think should be made up of shares of companies held by the Finance Ministry (ENI, ENEL, Finmeccanica, Poste, etc.)[4]. Companies that to date, considering market prices, cannot be privatized. These conferrals should remove German fears of having to pay for other States' debts. Germany would have to confer 270 billion euro, of which 140 billion from 109 ounces of gold and 130 billion in other assets. France would have to confer 200 billion of which 100 billion from 78 million ounces of gold and 100 billion in other assets. It would be important that Italy, Germany and France, in addition to gold, confer shares in companies belonging to homogeneous sectors such as energy, telecoms and transportation.

b) The EFF with 1,000 billion euro of paid up capital could issue 3,000 billion of EuBs with a leverage of 3 and a 10-year (and beyond) duration at an interest rate of 3%, possibly a variable rate after a certain period of time. There could be further guarantees with legal commitments from EMU member States. The 90 billion euro per year of interest charges, to date corresponding to some 1% of GDP of the EMU, would be payable from the profits of the equity conferred to EFF, part of the VAT of EMU member States and with interests paid by the debtors. Obviously, adjustments can be made in terms of interest rates, maturities, refunds of EuBs, which could be converted into shares.

c) The EFF should divide in two parts the 3,000 billion raised with EuBs. In order to bring the average debt-to-GDP ratio of the EMU from the current 85% to 60%, the EFF should buy 2,300 billion of State bonds from EMU member States. This way, Italy's debt towards the market would fall to 95% of GDP while the remaining 25% of debt would be towards the EFF. France and Germany' debt/GDP ratio would drop to under 60% towards the market. The remaining 700 billion of the issue would go to investments

4 See a clarification of this statement about networks in the following paragraph 9.

in large European projects aimed at unifying and helping continental companies in the energy, telecoms and transportation sector, of which the EFF would become a shareholder.

The advantages of this EuB issuance would be huge. We will mention just two.

The first is that the EFF would not behave opportunistically but will be a stabilizing factor in managing State Treasury bonds, which will be held for long periods of time, thus making speculation much more difficult.

The second advantage would be having a unified market of large-scale EuBs and raising funds at lower average interest rates compared with those that national bonds of almost all EMU member States can obtain. Considering the nature of the EFF and of EuBs, which have real collateral, it would be realistic to attract very liquid investors like Sovereign Funds that are estimated have to date assets of some 4,200 billion dollars, or some 3,000 billion euro that no EMU member State issuance can cover if not just marginally. This way, EuBs would become really competitive compared with US Treasury bonds, and could be attractive to China.

Obviously, the EFF would need a strict structure and corporate governance system (that could in part be taken from the EFSF and the ESM), including a system of voting rights of EFF members, which should reflect their respective shares in the fund capital, and be reviewed periodically in order to take into account by how much individual States exceed the 60% debt/GDP threshold. This way, the different States would be pushed to bring down their debt/GDP ratio.

Summing up: the EFF should be planned immediately because, considering the legal terms of the EMU (and of the EU), the Eurozone is running serious risks. Those of speculation, of budget rigor with no growth and employment, of the Franco-German diarchy that took on itself the role of governing the EMU and the UE, while not being able to match up to a Government capable of the major political and institutional projects outlined in the past.

9. Addendum

Let me conclude with two remarks.

The first one concerns the Stabilitybonds and refers to the decisions adopted at the Eurozone Summit held on 21 July 2011. In their Statement, the Heads of State or Government of the Euro Area and EU Institutions – to improve the effectiveness of the EFSF and avoid contagion – have agreed to increase its flexibility and powers. In particular, the summit widened the EFSF's scope of activity, allowing it to: act on the basis of a precautionary programme; finance recapitalisation of financial institutions through loans to governments including in non programme countries; extend the period of lending to Euroland States; intervene in the secondary markets on the basis of an ECB analysis recognizing the existence of exceptional financial market circumstances and risks to financial stability and on the basis of a decision by mutual agreement of the EFSF Member States, to avoid contagion. Moreover, other amendments increased to 780 billion euro the guaranteed capital (including an overguarantee of up to 165%), so that the effective lending capacity will increase to 440 billion.

It is worth stressing here the introduction of a new permanent rescue funding programme that will succeed EFSF, i.e. the European Stability Mechanism (ESM). In fact, on 11 July, finance ministers of the 17 euro-area countries signed the Treaty establishing the ESM, which is due to be launched in July 2013, replacing the EFSF. The initial maximum lending volume of the ESM, after the complete run down of the EFSF, is set at 500 billion euro. Its capital stock of 700 billion will consist of 80 billion in paid-in shares and 620 billion in callable shares. The ESM will provide financial assistance only if it is considered as necessary to ensure the financial stability of the euro area as a whole. The treaty establishing the ESM now needs to be ratified by the euro-area Member States before 31 December 2012 to enter into force and to be included in the European Treaties.

The second remark concerns the *EuroUnionBonds*. The proposal by Romano Prodi and myself – here reprinted in section 8 – has led to a wide discussion in Italy. A lot of articles about this issue have been published on *Il Sole 24 Ore*. We cannot sum up the contributions to the debate, some of which were in favour and some against our proposal. However, the silence on this proposal by the Bank of Italy may appear surprising, considering that Italy owns 79 million ounces of gold reserves (Quadrio Curzio, 2011d), but at the same time it is understandable given the delicate role of a Central Bank. But it is really surprising that the Italian Government has not taken the opportunity to relaunch officially at EU and EMU the idea of issuing Eurobonds for EMU countries.

The EuroUnionBonds proposed by Romano Prodi and Alberto Quadrio Curzio seems to be a great opportunity to overcome the unreasonable opposition to Eurobonds in a number of quarters (especially, although not exclusively, in Germany). The strength of the Italian economy in terms of gold reserves, and networks (energy, telecommunications and others), in terms of relatively low debt/wealth ratio, and in spite of the high debt/GDP ratio, would make Italy a strong proponent of that solution. We must stress here that our proposal refers to networks (in Italy like Terna, Snam and others which might also be put into distinct networks of joint stock companies) and not to firms producing goods and services which might also compete better when the networks are unified. Unfortunately, the current political weakness of the Italian executive makes it difficult for Italy to be effective in arguing for that means to overcome the eurozone crisis.

Last but not least, it is of interest to note that Thomas Sargent and Christopher Sims, winners of the 2011 Nobel Prize for Economics, have recently stated that the solutions to the eurozone crisis are clear from the economic point of view, and that the issue at stake is mainly a political one. They have argued that the European Union cannot survive unless it creates a common financial authority able to address and manage economic and fiscal policies for the entire continent, and prepared to issue Eurobonds. They have also argued that only Eurobonds can save the EU project since it would be illusory to maintain the single currency excluding weaker countries. In other words, we would either succeed together or fail together. Hopefully, people who have criticized Eurobonds allegedly on the ground of economic science would consider the statement of two Nobel prizes.

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