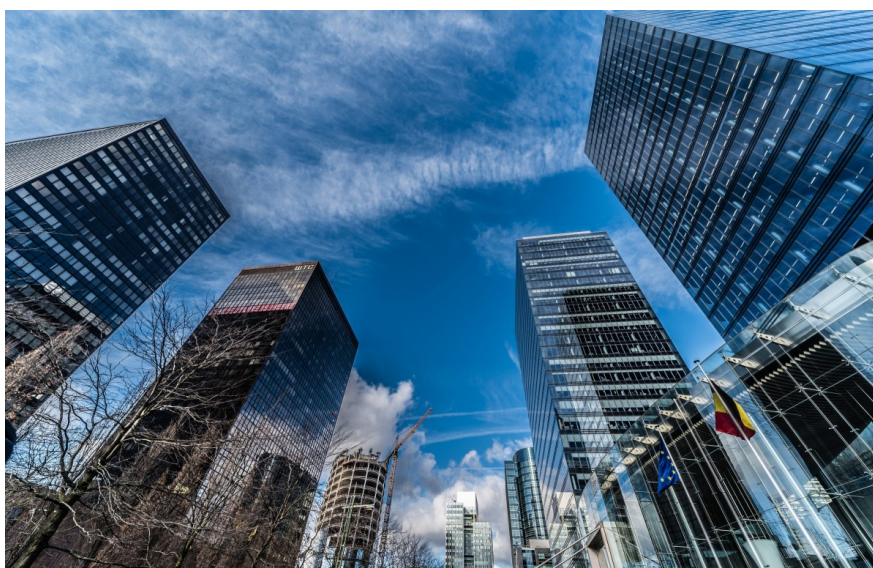


EU debt as insurance: key questions and some answers

European Union debt can provide comprehensive insurance against the Covid-19 pandemic and can enable a macroeconomic response, even though EU debt is a liability for taxpayers in EU countries and therefore indirectly for national budgets, **writes Guntram B. Wolff for Bruegel**



Introduction

The idea of a European Covid-19 pandemic recovery fund (discussed by EU heads of state on 23 April) has triggered a heated debate on joint borrowing. This blog post clarifies some of the concepts at the heart of this debate, concluding that EU debt to cope with the consequences of this crisis would tremendously increase the stability of the euro area. EU debt for the temporary catastrophic shock would provide effective insurance but multiple issues need to be solved. EU leaders should agree on multiple European Council meetings to solve them.

A key quote from the article:

EU debt to cope with the consequences of this crisis is highly desirable. However, it can only be delivered in a framework in which joint borrowing is not separated from control over spending and

revenues. Establishing such control via intergovernmental mechanisms will likely be politically unsustainable for such a health shock. Failing to put in place any control mechanisms would likely be equally unsustainable. The right road is towards some temporary EU debt for the temporary catastrophic shock. Catastrophic shock insurance increases the stability of the system and is therefore in the interest of all members of the system.

Agreeing on a good system will likely require several European Councils as it requires establishing acceptable mechanisms of control, accountability, spending design, and the right legal base. It may very well be that limits of the EU Treaty are too tight and that treaty reform becomes unavoidable or that new treaties outside the EU Treaty need to be established. But for the time being, Art 122(2) offers at least some options. And the fact that institutions such as the Commission, the European Parliament and the European Court of Auditors exist is a good starting point.

The full original article first appeared on Bruegel [here](#).

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