The EU’s southern member states have set the stage for European debt mutualisation

The Covid-19 outbreak has led to renewed calls for debt mutualisation in the Eurozone. **Luuk Molthof** *writes that while it seemed inconceivable member states would commit to genuine debt sharing prior to the crisis, the pandemic has proven to be a game-changer. He argues Italy and Spain have successfully portrayed northern member states as lacking in European solidarity, framing the adoption of joint debt instruments as the primary prerequisite for saving the European project.*

Due to the Covid-19 pandemic, Europe is not just confronted with a health crisis but also with an economic crisis of an unprecedented scale. During a video summit on 23 April, EU leaders agreed to a €540 billion rescue package and instructed the European Commission to draw up a proposal for a recovery fund to help Europe out of the recession. However, the summit left open the question of how much money the member states will commit to the recovery and how they intend to finance it.

Italy and Spain have repeatedly called for the adoption of joint debt instruments to finance the recovery. Yet their calls have been met with stiff resistance from the Netherlands, Germany, Austria and Finland, who fear the creation of a European transfer union. Because of their resistance, it seems unlikely that the Eurozone will adopt a genuine form of debt sharing any time soon. Nevertheless, as the crisis develops, these states may find it increasingly difficult to stick to their guns.

This is because, unlike during the Eurozone crisis, where ‘the North’ held the upper hand, it is now losing out to ‘the South’ in the framing of the appropriate economic response. Northern countries more or less successfully framed the Eurozone crisis as the result of ‘unsound’ economic policy, casting the (southern) debtor states as ‘irresponsible lenders’ and the (northern) creditors as ‘responsible savers’.

Their narrative of the crisis underlined the need for European solidarity, but also stressed the importance of individual responsibility. In line with this narrative, Germany and others argued that the mutualisation of debt would only exacerbate the moral hazard problem on the part of the debtor states. While the northern countries did not escape accusations of showing too little solidarity, they felt little pressure to change their position, due to both their material advantage and their control over the crisis narrative.

Giuseppe Conte at a European Council meeting in February 2020, Credit: European Union

This time, however, Germany and its associates have struggled in the 'communication battle'. In the wake of the pandemic, public sympathy has been drawn toward the southern countries, who have been hit particularly hard and who have framed their economic troubles as being caused primarily by extraordinary circumstances.

In this context, it is no longer as easy for the North to cast its southern partners as fiscally irresponsible debtors whose claim to European solidarity is limited – even if some countries did enter this crisis in an already unhealthy financial position. In fact, when they do attempt to portray the South as profligate, such as when Dutch Finance Minister Wopke Hoekstra called on the European Commission to investigate why some countries did not have the necessary financial buffers to cope with the crisis, they have taken a lot of flak from their European partners and the European media.

Statements like Hoekstra's have allowed countries such as Italy and Spain to successfully portray the North as lacking in solidarity. More importantly, however, they have also been able to successfully frame European debt pooling, and eurobonds in particular, as the number one expression of European solidarity. Much of the European media have copied the South's framing of the debate surrounding joint debt instruments. Even a lot of the commentary that is critical of debt pooling doesn't seem to question its symbolic value. Unlike during the Eurozone crisis, then, it is the South which seems to be winning the communication battle.

This has increased the pressure on northern countries, if not to accept genuine debt mutualisation, then to at least accept far-reaching measures for financial assistance. Their promises on 23 April alleviated the pressure somewhat, but this crisis is far from over. And while a country like the Netherlands, for instance, may not mind playing the bad cop, Germany, in particular, will be much more susceptible to criticism that it is not showing sufficient European solidarity.

In fact, in an apparent change of approach, Merkel's government signalled its support for the issuing of temporary EU bonds. While such bonds would only be provisional and would likely not cover existing debts, if adopted, they would nevertheless set an important precedent. Although the genuine mutualisation of European debt is still a long way off, due to Covid-19 and the South's effective crisis narrative, its implementation is no longer as inconceivable as it once was.

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Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics.

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