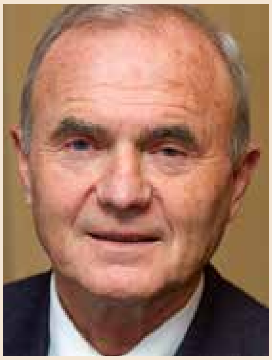
debt markets in the European Union. A rising share of the latter, though, is likely to be owned by the European Central Bank, stealthily increasing the true level of fiscal integration in Europe.



The historical analogy is simply wrong.

OTMAR ISSING

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According to Jean Monnet, Europe always needs a crisis to make an important step forward. On the one hand, European integration is based on a grand political design. On the other hand, progress in political reality can only be achieved and the manifold obstacles overcome under the pressure of a crisis. Following the motto "never let a crisis to go waste," Covid-19 seems to deliver a perfect case to go ahead. Politicians, among them the German finance minister, and academics, identify a Hamiltonian moment for Europe. This reference is based on two elements comparable with the situation of 1790 in the United States: an exogenous symmetric shock, with asymmetric impact. EU countries with already high public debt before the crisis would run into great difficulties in financing the measures needed to stabilize their economies. Alexander Hamilton interpreted the assuming of states' debt accumulated during the War of Independence as "cement" for the Union.

The opportunity of an Hamiltonian Moment for Europe means to mutualize new debt at the EU level to deal with the economic consequences of the pandemic and provide the financial means to the countries most seriously hit by the crisis. Shouldn't the European Union follow the U.S. example and move in the direction of fiscal and political union?

Indeed, the European Union has broken a taboo. It will raise a large amount of debt (€750 billion) for which there will be a common liability of member states, and distribute the financial means to countries partly as transfers and partly as credits. In addition, own revenues for the European Union via European taxes are planned. Will the political ambition end in a fiscal and finally political union?

"Hamiltonian moment" is a nice catchword (see my article "The COVID-19 crisis: A Hamilton Moment for the European Union?," in *International Finance,* Summer 2020). However, it would be dangerous to create the impression that using the Covid-19 crisis implies the chance for a state-creating moment in Europe comparable with its achievement in the United States. First of all, the historical analogy is simply wrong. The union that assumed the debt in the United States from individual states already existed. If Europe wants to establish a fiscal union by transferring sovereignty on taxation, credit financing, and public spending from the national to the European level, there is only one democratically legitimate way to do so—a change of the Treaty on the European Union that must be ratified by all governments and parliaments, and even confirmed by a referendum in some countries. In Germany, such a decision requires a change to the constitution. Seeking a shortcut by seizing a supposed Hamiltonian moment creates an illusion that might backfire and ultimately undermine popular support for deeper European integration.

Europe must find its own way. And this way to fiscal and finally political union must not use the backdoor of more or less tricky ploys which undermine the democratic accountability of national parliaments. European politics must choose the front door of an open process leading to democratic legitimacy via a change of the Treaty.

Europe could learn from Hamilton another lesson and give the formation of a common foreign and defense policy first priority and resist the temptation to base political integration on a union of common debt.

Europe-wide taxation and a European finance minister are necessary consequences of the new strategy.

KLAUS F. ZIMMERMANN

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After the onset of the Covid-19 crisis, European institutions remained absent for a long time, leaving relevant activities to the largely uncoordinated national policies of single governments. The European Union only returned with a coronavirus relief plan based on the issuance of common debt after a long delay.

Heavily debated among governments and within the European Parliament has been whether the mutualized debt should be provided as grants or loans, and what the negative financial implications of the rescue would be for the pre-corona European plans of fostering structural change. But the move was also considered as a potential "Hamiltonian moment" of re-creating Europe as the United States of a zone based on fiscal and political integration.

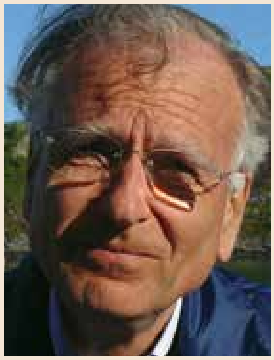
Is such a creative leap conceivable? Can the crisis be instrumentalized to foster the needed long-term structural changes in economy and society, including establishing EU-wide fiscal stability and coordination? Simple political observation says that it pays not to waste a crisis, and no political measure is as permanent as a temporary measure. But the prospect of a new United States of Europe is not only driven by accident and the political logic of muddling-through. It is also suggested by the long-term economic forces and the immense global challenges the world is facing.

The past and future lockdowns of economies and social life will generate a tremendous recession much stronger than the global financial crisis (2007–2008), with substantial long-term negative consequences for the flexibility of government activities and government debt. This has reinvigorated the role of government and macro management.

The burden for coming generations has substantially increased beyond the massive challenges that climate change, demographic imbalances, global refugee flows, and digitalization already present. It is almost impossible to ignore the powerful forces of globalization and international cooperation during such an emergency.

A functioning European Union is not superfluous; on the contrary, it is more indispensable than ever. Solidarity is a global public good, but it will only be realized once common values have been agreed on, including democracy, humanitarian principles, fiscal sustainability, the acceptance of the decisive role of incentives to optimize welfare, and the drive for structural reforms and social change.

Brexit has made this pathway easier for the rest of Europe. The critical role of the "frugal four" (Sweden, Denmark, the Netherlands, and Austria) in the debate has made the new debt policy more credible. Europe-wide taxation and a European finance minister are necessary consequences of the new strategy.



Chancellor Merkel's Christian Democrats are insisting that this analogy is misplaced.

ROLAND VAUBEL

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In Germany, the government is split over this issue. While Finance Minister Olaf Scholz, a Social Democrat, has called the agreement on the EU Recovery Facility a "Hamiltonian moment," Chancellor Angela Merkel's Christian Democrats are insisting that this analogy is misplaced because the European Union is not, like Alexander Hamilton, consolidating old debt of the member states and because the Recovery Facility is a one-time exercise limited to the coronavirus incident.

In my view, as I shall explain, the facility is a powerful and disastrous precedent generating incentives for excessive debt financing due to collective responsibility.

No doubt, the scheme will be challenged in the courts for lack of a legal basis. According to the Treaties (notably Article 310 of the Treaty on the Functioning of the European Union) and the Budget Statute, the EU budget has to be balanced. The transfers and loans of the Recovery Facility are to be granted within the official budget but to be financed by contributions raised off-budget by issuing common debt.

In my view, this construction is an illegal way of circumventing the balanced budget requirement. However, I do not expect that the EU Court of Justice will object to it. Like the Marshall court in the United States during Hamilton's time, the EU Court of Justice acts as a motor of integration including political centralization. When the Treaty partners cannot agree on some centralizing amendment, a simple majority of the Court's judges stand ready to adjudicate the centralization. While in the past there has been a strong general presumption that EU debt financing is prohibited, the Court's stamp of approval, which I expect, will open the floodgates for EU debt financing into the future, long after the coronavirus crisis.

The issuance of jointly guaranteed debt has been foreshadowed by the European Union's short-time unemployment insurance fund SURE, established earlier this year. The legislation (Article 10) obliges each member