Dear Marco,

I've now had a more careful look at the EC document. Box 2 at least makes the point about conditional Eurobonds with spreads. But by presenting this is just another option, the document failed to point out clearly enough that the difference between these and conventional Eurobonds is the difference between day and night. A hugely important point about conditional Eurobonds with spreads is that they address the German fear about the Eurozone becoming 'a transfer union'. I also did not see the point made clearly enough that these kinds of bonds, by creating the right fiscal incentives, allow a kind of fiscal decentralisation which addresses one of the key worries about fiscal governance in the Eurozone.

I thought that the discussion of previous literature does not give the credit to the Boonstra proposal that it deserves, particularly as his predates EMU. Though competitiveness is mentioned a few times, the document does not explain how incentives for improved competitiveness could be linked to Eurobonds (something I think is crucial and an important part of my proposal).

The at first sight, the most scary passage I saw was the following: fn 14

"For example, the German Constitutional Court ruling of 7 September 2011 prohibits the German legislative body to establish a permanent mechanism, "*which would result in an assumption of liability for other Member States' voluntary decisions, especially if they have consequences whose impact is difficult to calculate.*" It also requires that also in a system of intergovernmental governance, the Parliament must remain in control of fundamental budget policy decisions."

However, on a second reading, a temporary mechanism is not excluded. So my idea that Germany could simply lend Italy its next year's financing at an appropriate risk price is not excluded. Maybe this means that we could start with a Euro T-bill market rather than a Eurobond market, while constitutional and parliamentary approval is sought for the latter.

I think we are now at the most dangerous moment for the European and global economies since the Lehman collapse. Germany could still clutch disaster from the jaws of victory.

Best regards,

John

Prof. John Muellbauer FBA, Nuffield College, Oxford OX1 1NF

Tel: 44-1865-278583 (W) or 515963 (H) Fax: 44-1865-281621

Webpage: http://www.nuff.ox.ac.uk/users/muellbauer/muellbauer.pdf