

# European common debt: is this Europe's Hamiltonian moment?

*Note written by Jacques de Larosière*

First, let us recall the meaning of the term 'Hamiltonian moment'.

Alexander Hamilton was the United States' first Secretary of the Treasury, serving from September 1789 to January 1795. He incorporated the war debts incurred by the thirteen former American colonies into the unified federal public debt of the nascent United States. This was the price of freedom. However, he left non-military debts to be paid by the individual states.

For a long time, Europe was unable to establish a federal-style community debt as Hamilton had done.

However, since the Covid-19 crisis, some observers have suggested that Europe now has reached a significant amount of common debt and that the 'Hamiltonian moment' has arrived.

What is the current situation?

## 1. The debt issued by the European Economic Union has become substantial

### 1.1 Background

The EU's response to the pandemic has been significant, with €800 billion allocated for measures to boost productivity, climate action, digital transition, and most recently, the response to the energy crisis triggered by the war in Ukraine.

This debt is conditional in that it is applied flexibly to national plans rather than to specific projects.

Its main objective is to allow the economically lagging Member States to 'catch up' productivity-wise.

Of all the Community funding programmes, the NGEU (NextGenerationEU) debt programme was by far the largest. This program was financed through debt contracted by the European Commission on the market in the form EU bills and bonds, all with different maturities.

### 1.2 The amount of debt raised insignificant

EU debt rose from €50 billion before the pandemic to €695 billion by mid-2025.

By the end of the process, the total amount of shared debt is expected to reach between €800 billion and €950 billion.

This rapid development deserves to be highlighted.

## 2. Is it possible to compare EU debt with public debt denominated in dollars?

a) On the one hand, debt issued in dollars totals \$55 trillion, of which \$18 trillion is held by non-residents.

On the other hand, given that the EU debt is barely set to reach €1 trillion in a few years' time, the amounts are simply not comparable.

However, these two debts differ not only in their amount, but in their fundamental characteristics too.

b) The US government is responsible for public debt issued in dollars. It is the sole authority in charge of servicing interest and principle repayments. There is no need for the government to negotiate with individual states.

The situation with European common debt is different. There is no unified European state that is the natural guarantor of the debt issued by the Commission. The burden lies with the Commission itself.

However, as there is no sovereign state, the Commission is obliged to negotiate with the Member States in order to service and meet the maturities of the common debt.

In principle, it is the responsibility of the European Union's budget to ensure that payments are made. This, however, assumes that the European budget is sufficient, or can be made sufficient, in order to finance the operations in question.

Yet amending the European budget is no easy task. It is the result of a political consensus that is difficult to achieve.

Let's take a closer look.

- The part of NGEU that involves **loans** to Member States is less problematic. Beneficiary states receive loans from the Commission. When these loans mature, the beneficiary states repay them to the Commission. However, it should be noted

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that the loans received benefited from lower spreads than those normally applied to the various states. Therefore, there is an element of community solidarity here, as the Commission has given member states with high spreads more favourable terms.

- Let us now analyse the part of the NGEU that is allocated in the form of **grants**.

Here, we see a significant redistribution.

Grants are preferably allocated to Member States with low productivity. The major beneficiaries of the grants (Portugal, Italy, Greece and Spain) received 78% of the total grants, which is well above their budgetary share. However, they only contribute 28% of GDP.

This is, in fact, a redistributive mechanism.

Subsidies go to the less wealthy states, while the debt financing that made them possible will most likely be financed by all states via the Community budget.

In this sense, the 'good payers' will bear most of the cost.

Ultimately, the NGEU will be funded by the Community budget. However, it is unclear whether this redistribution will be politically accepted.

The comparison with the United States can be formalised as follows:

- In the United States, public debt depends on American power. Debt is a matter for the government. It does not need to be negotiated with the states. The United States is a single state with a deep and unified financial market.
- In Europe, however, the Commission, which issues Common debt, has to negotiate its financing.

The attitude of the markets therefore differs depending on the area in question.

Dollar-denominated debt is 'self-sustaining', whereas European debt requires support in the form of budgetary agreements.

I would also like to point out that the idea that EU financing will somehow be 'self-financed' by the productivity gains generated by the NGEU is unrealistic. There is no evidence to suggest that the NGEU has increased productivity. The indications gathered so far are ambiguous and the future is very uncertain.

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Before we welcome the arrival of a 'Hamiltonian moment', we must remember that Hamilton incorporated the states' war debts into a single federal budget, which the federation then repaid. We are a long way from that.