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As nations confront the COVID-19 with generalized shutdowns, governments have no choice but massively spend in support of healthcare systems, disease prevention, deprived families, companies and, later on, aggregate demand. Public debts are rising to unusually high levels.

One interesting case is Italy, because it has less "fiscal space" than others. Its debt ratio will rise to 155% at year end. Such debt levels are not unsustainable per se, but they could be so in the Eurozone, courtesy of the ECB's ambiguity as a lender of last resort. Thus, instability and economic decline in Italy are poised to accelerate dramatically in the coming years. And not just in Italy.

Given such dire an outlook, proposals currently being discussed in the EU are vastly insufficient. "Eurobonds" sponsored by Latin countries - assuming the EU issues 1 tn., maturity 2120, interest rate 1.3%, and Italy's share is 100 bn. - would save Italy only 1 bn of annual interest payments (compared with similar BTP Italian notes, April 9th yield curve). Likewise, a EU-sponsored "ESM loan" of 36 bn., suggested by some Nordic countries, would save Italy 20-510 mil. Even the two taken together would save Italy less than 0,1% of GDP.

The real solutions to this crisis lie elsewhere. Consider the last decade. Had the ECB contained the Italian spread to 50 bp (on average) – as any other central bank would have done - the Italian debt ratio would now be < 115%, not 135%. Had the ECB met its inflation target – instead of delaying QE for 5 years - the debt ratio would now be 108%. Not to mention mercantilism (IMF Statute Art.1 and 4). Hence, to scale-up effectiveness, policy-makers should target the whole debt ratios. New loans, however cheap, being a fraction of the outstanding debt, will only bring marginal relief: international transfers among rich countries are utterly inadequate.

The road ahead for rich countries is: (a) in 2020, wealth transfers within nations from the public to the private sector, while central banks shield sovereigns from financial turmoil; (b) after 2021, facilitate wealth transfers in the opposite direction, to reduce debt ratios. Eurozone rules and institutions should help member countries to mobilize their own resources: they do not.

Until now no developed State has faced liquidity constraints. But since February 1st, interest rates on sovereign bonds have fallen everywhere except in the eurozone pheriphery: (on 10 years maturities) US -96 bp, Canada -58, Poland -51, UK -30, France +24, Spain +47, Italy +68. This is a sign that the ECB, contrary to other central banks, is delivering only a limited dose of financial stability, even in the darkest hours. Just to be clear, 68bp more imply, in the long run, an increase of annual interest payments by Italy of 11 bn. And it is only the beginning.

Spreads generate financial transfers in the "wrong" direction, from public to private sectors. They tend to increase with debt ratios, but are very sensitive to the ideological stance of the central bank, as was shown in 2012 by Draghi's "whatever it takes". They are also sentive, but much less so, to central bank open market interventions: in the first semester of 2012 the ECB managed to dampen sovereign spreads only by as much, and for a brief lapse, while spending 1,1 tn. Now, with only 750 bn. dedicated, higher debt ratios, and a much greater shock, the ECB intervention cannot succeed for long.

What the Eurogroup should discuss is a OMT agreement that puts a ceiling (50 bp) on spreads in primary markets, in exchange for a truly anti-cyclical, serious conditionality. Spreads are a rough 19th-Century medicine ("market discipline") against moral hazard in finance. If it is removed, moral hazard must be prevented through other means. The modern solution is strict regulation ("hard" in the sense of certain, iron, credible): Germans are right on this. At the same time, "hard" cannot mean stupid, excessive, procyclical: Southern countries are right. Thus, European

should trade credibility for anticyclical austerity: it would be a game changer, an appropriate new paradigm for the common currency.

Mario Draghi wrote last month: “given the present and probable future [low] levels of interest rates, increases in government debt will not add to its servicing costs”. This is true, but should apply to all countries. An agreement on financial stability would decisively brighten the fiscal outlook of the eurozone, while improving expectations and aggregate demand in the short term. Acrimonous discussions in the EU on “who pays the bill” would meet a clear answer: “private rentiers, in each country”. The EU could then move on to more important and difficult tasks, such as coordinating epidemiologic policies, and helping contain a looming gigantic financial crisis in emerging countries.