A PROPOSED SOLUTION TO THE PUBLIC DEBT CRISIS (2007-2016) AND THE ONE CREATED AS A CONSEQUENCE OF COVID-19

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SUMMARY / ABSTRACT

In recent times, and more particularly since the outbreak of the economic crisis in 2007, the risk premium rate in comparison with the German bonds together with the high interest rates paid mean an important and recurring problem for many countries of southern Europe. In addition the Government requested help from the ECB so that the European rescue fund brings money to the Spanish banks that are under severe difficulties. Now, on the threshold of the third decade of the 21st century, all this problem will be exacerbated, worldwide, by the crisis of the coronavirus COVID-19 and the subsequent economic recession caused by said unsuspected pandemic.

The public debt problem has its origin in the need to give bail to the banks, savings banks, and other companies as a consequence of the real estate bubble that busted in the United States and afterwards in many other countries. In order to finance those “presents” some countries had to indebt themselves in excess. On the other side, the ECB, during a long period of time did not buy public debt. This is the reason why the Spanish premium rate is so high. If the ECB does not buy generously public debt, or the measures proposed by the author of this paper are not adopted, the Spanish public debt will be subject to the tireless speculation of the financial markets. Those measures could be confined to these two: a) “RULE OF 10”, that affect the debt interest rates, and b) the “RULE OF BALANCE” of debt flow, that affects the face value of the debt.

Key words: risk premium, public debt, public deficit, financial markets, interest rates, debt auction, speculation, European community by-laws.

Journal of Economic Literature (JEL) Classification Codes: G01, G12, G15, G18, H62, H63

RESUMEN

En los últimos tiempos, y más concretamente desde el estallido de la crisis económica en el 2007, tanto la prima de riesgo comparativa con la deuda germana como los elevados tipos de interés a pagar vienen representando acuciantes y recurrentes problemas para la deuda pública de numerosos países del sur de Europa. El Gobierno español se vio obligado entonces a solicitar la ayuda del BCE para que el fondo de rescate comunitario inyectase dinero en la maltrecha banca española. Ahora, a las puertas del tercer decenio del siglo XXI, toda esta problemática se verá agudizada, a escala mundial, por la crisis del coronavirus COVID-19 y la subsiguiente recesión económica causada por dicha insospechada pandemia.

El problema de la deuda pública tiene su origen en el salvamento de bancos, cajas de ahorro y empresas a consecuencia de la burbuja inmobiliaria que reventó en USA y poco después en nuestro país. Para poder financiar estos generosos "regalos", algunos Estados se han tenido que endeudar más de la cuenta. Por otra parte, el BCE, durante largos periodos de tiempo no compró deuda pública. Ésta es la razón de que la prima de riesgo española subiera por las nubes. Mientras el BCE no compre generosamente deuda pública, o no se tomen medidas adecuadas como las que aquí se proponen por el autor de este artículo, ésta continuará siendo vulnerable a la especulación incansable de los mercados financieros. Estas medidas pueden concretarse en dos: a) la "REGLA DEL 10", que afecta a los tipos de interés de la deuda y b) la "REGLA DE EQUILIBRIO" del flujo de deuda, que afecta al principal o nominal de la deuda.

Palabras clave*: prima de riesgo, deuda pública, déficit público, mercados financieros, tipos de interés, subasta de títulos, especulación, reglamento comunitario.*

Códigos identificativos según el Journal of Economic Literature (JEL): *G01, G12, G15, G18, H62, H63.*

RESUM

Als darrers temps, i més concretament des de l'esclat de la crisi econòmica al 2007, tant la prima de risc comparativa amb el deute alemany com els elevats tipus d'interès a pagar representen greus i recurrents problemes per al deute públic de nombrosos països del sud d'Europa. Endemés, el Govern es va veure obligat a sol·licitar l'ajut del BCE per tal que el fons de rescat comunitari injectés diners a la malmesa banca espanyola. Ara, a les portes del tercer decenni del segle XXI, tota aquest problemàtica es veurà agreujada, a escala mundial, per la crisi del coronavirus COVID-19 i la subsegüent recessió econòmica causada per aquella insospitada pandèmia.

El problema del deute públic té el seu origen en el salvament de bancs, caixes d'estalvi i empreses com a conseqüència de la bombolla immobiliària que esclatà en USA i poc després al nostre país. Per tal de poder finançar aquests generosos "presents", alguns Estats s'han hagut d'endeutar més del compte. Altrament, el BCE, no adquirí deute públic durant un llarg període de temps. Aquesta és la raó de què la prima de risc espanyola es muntés pels núvols. Si el BCE no compra generosament deute públic, o no es prenen mesures adients com les que aquí proposa l'autor d'aquest article, el deute continuarà essent vulnerable a la inesgotable especulació dels mercats financers. Aquestes mesures es poden resumir en dos: a) la "REGLA DEL 10", que afecta els tipus d'interès del deute i b) la "REGLA D'EQUILIBRI" del flux del deute, que afecta el principal o nominal del deute.

***Paraules clau**: prima de risc, deute públic, dèficit públic, mercats financers, tipus d'interès, subhasta de títols, especulació, reglament comunitari.*

***Codis identificatius segons el Journal of Economic Literature (JEL):** G01, G12, G15, G18, H62, H63.*

1. INTRODUCTION

Since the outbreak of the economic crisis in 2007, both the comparative risk premium with German debt and the high interest rates to be paid have represented pressing and recurring problems for Spanish public debt that have been moderating and redirecting in recent times. The government requested, in the summer of 2012, the help of the European Central Bank (ECB) for the community rescue fund to inject money into the battered Spanish bank (especially the regional savings banks, affected by the bursting of the housing bubble). However, the German position clashed head-on with the Spanish one, with Chancellor Angela Merkel and her followers clinging to the strict stability doctrine of the ECB, also reflected in the limitation to grant credits imposed by the Lisbon Treaty[1] in its article 123.

Public debt or *sovereign debt* is understood as the set of debts that a State maintains vis-à-vis individuals or another country. It constitutes a way of obtaining financial resources by the State or any other public power, normally materialized by issuing securities. Public debt is defined as a financial instrument of a passive nature for the issuing public territorial entity, which seeks in national or foreign markets to raise funds under the promise of future payment or amortization and income fixed by an interest rate at the times stipulated by the bonus.

It also represents an instrument that States use to solve the problem of punctual lack of money, such as:

- When a minimum of cash (cash on hand) is needed to meet the most immediate payments (current expenses).
- When medium and long-term operations need to be financed, mainly real investments (capital expenditure).

There are different ways to finance a public deficit, at least in the short term. The most important is internal indebtedness. In this case, the Public Treasury issues bonds that are purchased by private agents, not the central bank. This form of indebtedness allows the government to sustain a deficit without reducing its reserves or increasing the money supply[2].

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[1] The **Lisbon Treaty**, signed by the representatives of all the member states of the European Union (EU) in Lisbon on December 13, 2007, is the one that replaces the *Constitution for Europe* after the failed constitutional treaty in 2004. With this treaty, the EU has its own legal personality to sign international agreements at community level. It was designed to improve the functioning of the European Union (EU) by amending the Treaty on European Union (Maastricht) and the Treaty establishing the European Community (Rome, 1957). Some of the most important reforms introduced by the Lisbon Treaty are the reduction of the possibilities of stagnation in the Council of the European Union through qualified majority voting, a stronger European Parliament by extending the joint decision procedure with the Council of the EU, the elimination of the three pillars of the European Union, and the creation of the figures of President of the European Council and High Representative of the Union for Foreign Affairs and Security Policy to provide greater coherence and continuity to the EU policies. The Lisbon Treaty also makes the Charter of Fundamental Rights of the European Union legally binding.

[2] The money supply is the amount of money in circulation in an economy. The money supply not only includes liquid or cash money (banknotes and coins in circulation), but also includes bank money. The money supply is measured from the monetary aggregates. The first monetary aggregate is M1, also called

Both the structural public deficit and the level of indebtedness constitute economic variables that are widely observed and valued by international financial analysts. They are sources of instability and mistrust in the markets as a consequence of the pernicious impact they have on the evolution of a country's economic policy and on a large number of variables and behaviors of economic agents. Indeed: a) a high, systematic and permanent public deficit is a limitation to stable growth in the medium and long term, which exerts upward pressure on prices (inflation) and forces an increase in fiscal pressure limiting the growth of activities private that form the basis of the capitalist economy. In addition, its financing also exerts upward pressure on interest rates, which hurts investment projects in the real economy, and b) orthodox financing of the deficit generates an expansion of public debt, with the consequent financial burden of paying interest, which originates one of the most perverse economic phenomena by self-feeding the deficit of subsequent years.

Well, from the adoption of the euro until 2013, Spain accumulated 666 billion euros in external deficits. In fact, we must go back to the mid-1980s of the last century to find the last trace of surpluses in Hispanic accounts. How could it be otherwise, the deficits have been financed with foreign capital, causing a considerable increase in liabilities to the rest of the world, for the most part, in the form of debt. This external position constitutes, at the moment, one of the key vulnerabilities of the Spanish economy as it raises many doubts about the solvency of the country and, at the same time, it requires continued and systematic access to international financing markets.

One aspect of particular importance for economic policy purposes is that of the term of the loan. In this sense, there are different types of debt securities or assets issued by the Public Treasury, namely:

- *Short-term debt*: it is issued every fifteen days under auction, with a maturity of less than one year and usually works as a kind of bill of exchange, in this case from the State. In Spain, short-term debt is represented by **Treasury Bills**. Said debt has been used to cover the State's treasury needs, that is, the so-called “cash deficits” that the general budgets of the State present temporarily.
- *Medium-term debt*: fulfills the mission of raising funds to finance ordinary expenses; In Spain, the **State Bonds** fulfill this role.
- *Long-term debt:* it has the mission of financing extraordinary expenses with long profitability. Within the long term it can have a very varied duration and can even be of unlimited duration, leading to perpetual debt. In Spain it is represented by the **State Obligations**.

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as the *money supply in the strict sense*, and is made up of currency in circulation plus demand deposits. The second monetary aggregate is M2, also called the *money supply in the broad sense*, and is made up of currency in circulation, demand deposits and savings deposits. The monetary aggregate used in the Monetary Union is M3, which additionally includes term deposits, as well as various other components.

2. DEBT: A PROBLEM WITH DANGEROUS CONSEQUENCES

2.1. The figures for Spanish, European and American public debt in the face of the 2007 crisis

More than the absolute value of debt, an important index of the economic and financial viability of any State (as prescribed in the current Stability and Growth Pact of the European Union[3]) is the relationship between public debt and the gross domestic product (GDP). The aforementioned relationship, in this case, represents a sufficiently significant index or parameter because it is considered that the State is capable of restoring its public debt, for example, through rates and/or taxes. It is also being considered, at a European level, that the basic condition to stabilize and subsequently reduce the relative volume of debt in terms of GDP is to cancel the primary deficit, that is, the current public deficit without considering interests. And this can only be achieved by freezing the growth of social spending.

As the spotlights shine a light on the European sovereign debt crisis, the United States has tried behind the scenes to establish a fiscal path to ensure the sustainability of its public debt. Although the actors in the drama are the same on both sides of the Atlantic Ocean, that is, the high deficit and the debt ratio, the commitment to growth in the United States sets out a strategy quite different from the paradigm of austerity prevailing in the old continent. The strength of the European script has managed, for the moment, to keep the American plot in the background. This, however, could soon gain an audience.

The United States closed 2011 with a deficit close to 10% and a gross debt that was dangerously close to 100% of GDP, according to estimates by the International Monetary Fund (IMF). In this regard, the debt held by the public must be distinguished “net public debt” from the total pending public debt or “gross public debt”; the difference is that gross debt includes funds held by the government, and we will refer to it in what follows. At the other extreme, Germany was trying to gently reduce its debt to around 81% despite having an estimated deficit of 1.7%. Meanwhile, in Spain, the government justified the adjustment programs after estimating the 2011 deficit at close to 8% and the gross debt at around 68.5% of GDP. Greece, Italy, Ireland and Portugal were the four European countries whose debt already exceeded 100% of GDP at that time. All this can be seen graphically in the following figures or tables:

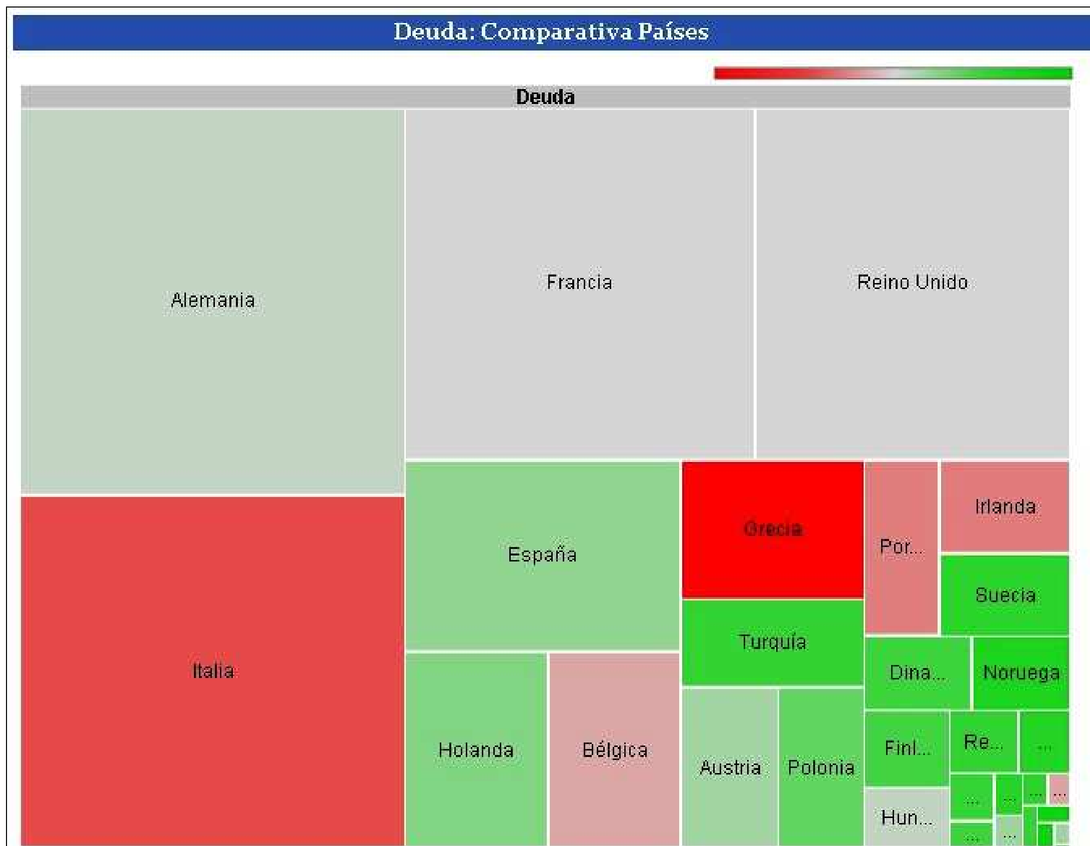
[3] The Stability and Growth Pact (PEC) is a regulatory framework for the coordination of national fiscal policies within the Economic and Monetary Union (EMU). It was created in order to maintain sound public finances, which is undoubtedly an important requirement for the proper functioning of the EMU. The Pact has a preventive component and a deterrent component. As Europe's population is aging, as life expectancy increases and fewer children are born, EU Member States face the challenge of ensuring the long-term sustainability of public finances taking into account the consequences of population aging on budget. To overcome this challenge, and considering the importance given to long-term sustainability by the reform of the Pact carried out in 2005, long-term budget forecasts are established for the EU and the specific situation of each Member State is evaluated and controlled (a global analysis is contained in the sustainability report). The long-term sustainability of public finances is also taken into account when evaluating stability and convergence programs.

Table no.: 1. European comparative debt.

Countries	Year	Millions €	% GDP
Spain	**2011**	**734 961.00€**	**68.50%**
Germany	2011	2 088 472.10€	81.20%
UK	2011	1 547 506.30€	85.70%
France	2011	1 717 256.00€	85.80%
Italy	2011	1 897 179.00€	120.10%
Portugal	2011	184 290.90€	107.80%
Austria	2011	217 398.70€	72.20%
Belgium	2011	361 735.30€	98.00%
Bulgaria	2011	6 285.60€	16.30%
Cyprus	2011	12 720.00€	71.60%
Czech Republic	2011	60 798.00€	41.20%
Denmark	2011	111 766.00€	46.50%
Estonia	2011	965.20€	6.00%
Finland	2011	93 030.00€	48.60%
Greece	2011	355 617.00€	165.30%
Croatia	2009	16 089.10€	35.30%
Hungary	2011	72 134.10€	80.60%
Ireland	2011	169 264.00€	108.20%
Iceland	2011	10 139.80€	98.80%
Lithuania	2011	11 827.20€	38.50%
Luxembourg	2011	7 785.90€	18.20%
Latvia	2011	8 617.80€	42.60%
malt	2011	4 600.30€	72.00%
Holland	2011	392 506.00€	65.20%
Norway	2011	101 532.60€	29.00%
Poland	2011	192 671.90€	56.30%
Romania	2011	44 607.30€	33.30%
Sweden	2011	150 483.60€	38.40%
Slovenia	2011	16 954.40€	47.60%
Slovakia	2011	29 911.30€	43.30%
Turkey	2010	225 105.80€	42.40%

SOURCE: datosmacro.com

Table no.: 2. Comparison of debt by country.



SOURCE: datosmacro.com

The American script or roadmap sought to use debt to articulate an expansive policy with which to return to the long-awaited path of growth. This would allow paying future interest on the debt. In Europe, the strategy has been exactly the opposite: reduce the deficit and control the debt, so that the economy, once free of burdens and taxes, grows again. At this point it is worth asking: which of the two alternatives will be the most correct?

The level of public debt in Spain increased to 72.1% in the first quarter of 2012, but was still below the European average, which climbed to 83.4% in the same period, according to data from Eurostat[4] collected by the Institute for Economic Studies (IEE). Although the debt was below the European average, the IEE believed that, in the Spanish case, it should not be forgotten that at this level of debt we must add the debt of households and non-financial companies, giving rise to the to a worrying global debt situation. Furthermore, most of the Spanish public debt was in foreign hands. And so it continues, by the way, today.

In fact, the debt of public administrations as a whole chained, at that time, more than four years on the rise, since it had been increasing since the first quarter of

[4] The **Eurostat** (Statistical Office of the European Communities) is the statistical office of the European Commission, which produces data on the European Union and promotes the harmonization of statistical methods in the member states. Two of its particularly important roles are the production of macro-economic data that supports the decisions of the European Central Bank in its monetary policy for the euro, and its regional data and classification (NUTS) that guide the structural policies of the European Union. Eurostat is one of the Directorates-General of the European Union and is based in Luxembourg.

2008, and reached a new record in June 2012 by adding 804,388 million euros, which was equivalent to 75.9% of GDP. According to the data published by the Bank of Spain that we have, the main increase occurred in the debt of the central administration, which increased by 4.4%, reaching € 617,504 million, which represented 58.3% of GDP.

At the end of 2015, these figures continued their inexorable increase. In the month of July 2015, it was 96.59% of GDP, and the debt per capita, which had decreased this month, was € 22,397. If we compare it with that of July 2014, we see that in one year, the debt grew in Spain by € 763 per inhabitant.

Public debt in Spain grew in the second quarter of 2015 by 7804 million euros and stood at € 1,053,996 million. This figure assumed that the debt reached 99.50% of GDP in Spain, while in the previous quarter, first quarter of 2015, it was 98.00% of GDP.

If we compare the debt in Spain in the second quarter of 2015 with that of the same quarter of 2014 we see that the annual debt increased by 41,401 million euros. The debt per capita in Spain, in the second quarter of 2015, was € 22,696 per inhabitant. In the first quarter of 2015 it was 22,528 euros, then there was a worrying increase in debt per inhabitant of 168 euros. And so it went on *in crescendo*.

Spain, in short, and according to annual debt data, is among the countries with the most debt in the world. As the Spanish Government justified at the time, "this behavior is explained both by the increase in the need for indebtedness derived from the economic crisis", and by the impact of the allocations to the Fund for Orderly Bank Restructuring (FROB), the amortization of the electricity deficit (FADE), the item to finance payments to suppliers and the Spanish installment of the loan granted to Greece by the European Financial Stability Fund (EFSF).

Regarding Europe and looking at the data for the first quarter of 2012, let's see that Greece is the country with the highest level of debt (132.4%), followed by Italy (123.3%) and Portugal (111.7%). In Ireland, the level of debt had increased slightly to 108.55%, while Belgium stood at 101.8%, France 89.2% and the United Kingdom 86.4%. In Germany, general government debt stood at 81.6%, while Hungary stayed at 79% and Malta and Cyprus stayed at close to 75%. Next came Austria (73.5%) and the aforementioned case of Spain (72.1%).

Still less than Spanish debt were the Netherlands (66.8%), Poland (56.1%), Finland (48.7%), Slovenia (47.7%), Slovakia (46.4%), Denmark (45.1%) and Latvia (44.6 %). The countries with the lowest public debt, in terms of GDP, were the Czech Republic (43.9%), Lithuania (42.7%), Sweden (37.2%), Romania (36.3%), Luxembourg (20.9%), Bulgaria (16.7%) and Estonia (6.6%).

In the European Union, things were not much better. The five countries with the highest rates of public debt relative to GDP in the European Union were Greece, Italy, Portugal, Ireland and Cyprus (four of them have had to be rescued), with ratios of 175%, 132%, 124%, 123% and 114% respectively. The

countries with the lowest ratio were Estonia, Bulgaria and Luxembourg, with public debt to GDP rates of 11%, 16% and 23% respectively.

A report by EAE Business School, referring to the 2014 financial year, made a comparison of the levels of public debt registered in the main European and American economies. While the Netherlands was the country with the lowest rate of public debt to GDP (74%), Venezuela was the Spanish-American economy with the highest rate (53%). In other words, the rate of public debt to GDP of the European economy with the lowest ratio was 1.39 times higher than the rate of public debt to GDP of the Spanish-American economy with the highest ratio.

On the other hand, in Spain, the maturities of the public sector debt for 2012 were in the order of 125,000 million euros, among treasury bills, bonds and State obligations, according to the following calendar (only for bills and bonuses):

Table no.: 3. Calendar of maturities of the Spanish public debt.

YEAR 2012 (million euros)	
MONTH	**NOMINAL**
January	8600 €
February	14300 €
March	6500 €
April	22100 €
May	5700 €
June	5700 €
July	7300 €
August	7400 €
September	5800 €
October	26300 €
November	2600 €
December	2200 €
TOTAL	**114500 €**

SOURCE: J. Gispert in *Diari de Tarragona*

The peremptory nature of striving to obtain the related liability caused some tensions when it came to capturing it, despite the fact that the ECB mediated and calmed the appetite of competitors (banks and the State), placing a sufficiently significant monetary mass on the market.

Putting things this way, it does not seem that the level of public indebtedness of our country reached then excessively alarming levels. Another very different thing would be private indebtedness, which we will not refer to here specifically for understandable reasons of space. It is true that Spain has a significant private debt, but this debt will not be paid by the State, so the attack on the Spanish sovereign debt, which occurred then, was exclusively of a political-financial nature.

As usually happens in the vineyard of the Lord, the debt that drowns some enriches others. Germany has long been one of the few countries that benefits from placing securities at a negative rate, that is, the investor, instead of waiting for a higher return on their money, prefers to pay a negative income and thus insure capital. It is obvious that in the classic trinomial of the expected characteristics of a financial investment (Security, Economic Profitability, Liquidity) the first condition is the one that prevails in these times. With this, the money was given away to Germany and, in order to compensate the loss, other countries such as Greece (and previously Spain, Portugal or Italy) were harassed to obtain more interest with the increase in their risk premiums and, incidentally, the Eurozone as a whole was under pressure.

2.2. The "public debt problem"

According to Professor Vicenç Navarro[5], professor of Political and Social Sciences at the Pompeu Fabra University, there is not full awareness in many progressive circles (nor, of course, in the most conservative ones) that the so-called "public debt problem" is a artificially created phenomenon to justify the dismantling of the welfare state. In fact, the vast majority of the growth in public debt in the USA (67%) was due to measures to support the military-industrial complex, banking, and higher incomes. However, none of the measures aimed at reducing public debt was aimed at changing these policies. Instead, an attempt was made to reduce public social spending, specifically Social Security and health services, and this despite the fact that Social Security (pensions mainly) had not contributed at all to the growth of public debt. The parallelism of this situation with the Spanish one was evident.

The problem of public debt has its origin in the rescue of banks and companies as a result of the real estate bubble that burst in the USA and soon after in our country. In order to finance these generous "gifts", the states had to go into debt. Public debt in rich countries broke the 100% of GDP barrier in 2012 for the first time since the Second World War, with which the states of the developed world will owe more than their countries produce in a year, as recognized by the IMF itself.

The ECB President since November 2011, Mario Draghi, reiterated, at one point, that if Spain wanted its risk premium to relax, it would have to sign a new memorandum of understanding (MoU), similar to the one proposed to receive the check of up to 100 billion euros to cover the holes of the national bank. And this implied surrendering to what was ordered from the IMF and the EU to pay, primarily, the creditors of the debt.

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[5] Professor Vicenç Navarro López studied and graduated in Medicine and Surgery at the University of Barcelona in 1962. He studied Political Economy in Sweden and Public Policy at the London School of Economics, at Oxford and Edimburg. In 1965 Dr. Navarro was invited to join The Johns Hopkins University, in USA, where he obtained his PhD. in Public Social Policy in 1967 and has been a Professor holding Full Professorship in Public Policy and Political Studies since 1977. He was one of the founders of its Public Policy Programme, one of the best known in USA. He has been an advisor to the United Nations, to some European and Latin American governments.

Incidentally, in the financial field, the IMF and the World Bank (WB) had always excelled in their very long efforts to contain economic crises, until they demonstrated, as of 2007, their notable inefficiency in the prevention and subsequent execution of said work. Right now, the game in that field is in the privileged place of the Presidency of the US Federal Reserve and that of the European Central Bank. For those institutions, which at some historical moment laid the foundations for the entry into force of economic globalization with the liberation of the markets, which went everywhere with their absurd recipes for the removal of subsidies for agriculture, food, medicines, etc., that prohibited privatizations, free trade and debt repayment, that led to financial speculation, today its practical function is reduced to that of operating as simple anti-crisis mechanisms, with a restricted recipe book on austerities, suppression of investments, fiscal reforms, dismissal of private and public workers, delay in the retirement age with greater conditionality, and health, salary and social cuts of all kinds.

However, the limitation of its operation is obvious. After a period when these institutions dealt only with the governments prone to the third world, they now have to deal with a massive mass opposition from developed countries. Meanwhile, as the crisis moved into the major economies, both the IMF and the World Bank gradually faded.

The EFSF[6] -the same that has already fully rescued Greece, Portugal and Ireland- has the ability to buy debt in the primary (when a country sells debt for the first time to investors) and secondary markets[7]. Now, what type of debt will the EFSF buy? If they intervene in the secondary market, they will acquire the sovereign debt already issued by the State. In its formula as a buyer in the primary market, the fund could buy debt at auctions of any public administration (including the autonomous communities and local authorities, for example). Although direct purchase at auctions is essentially designed to facilitate the return to the markets of a country that has been subject to a total bailout, Spain could also request that the EFSF act on the primary market. The interventions on the primary and the secondary would therefore be synergistic[8].

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[6] The European Financial Stability Fund (FEEF), (in English the European Financial Stability Facility, abbreviated EFSF), is a special legal entity approved by the 28 Member States of the European Union on May 9, 2010, whose main objective is to preserve the Financial stability in Europe through the offer of financial aid to euro area states that are in a situation of economic crisis. The Fund is headquartered in Luxembourg City, and the European Investment Bank offers treasury management services and administrative support through a service level contract. The German Klaus Regling was appointed first president of the entity in July 2010. The EFSF is authorized to borrow up to 440000 million euros, of which, 25000 million were available after the rescue of Ireland and Portugal. A separate entity, the European Financial Stability Mechanism (MEEF), reporting to the European Commission and charged to the European Union budget as collateral, has the authority to raise up to € 60 billion.

[7] All Treasury Securities are traded on a highly active secondary market in which Letters, Bonds and Obligations already issued are exchanged, and in which the vast majority of financial intermediaries participate. This has an important advantage for the investor: it allows him to invest for terms other than the 6, 12 and 18 months of the Bills or the 3, 5, 10, 15 and 30 years of the Bonds and Obligations. For example, if the investor wants to invest at 4 months (a term that the Treasury does not currently issue), he could acquire a 6-month Letter that had been issued 2 months earlier.

[8] The EFSF can issue bonds or other debt instruments on the market with the support of the German Debt Management Office to raise funds necessary to provide loans to financially distressed Eurozone countries,

In any case, the truth is that the structure of the European Central Bank facilitates speculation. Indeed, the ECB can lend to private banks at an interest rate of 1% but surprisingly it cannot do so to States, which have to resort to private financial institutions through public debt and satisfy much higher interests, with the consequent benefits only for the latter. In this way, private banks can collect low-interest loans from the ECB and buy public debt at much higher interest[9] with the corresponding profit.

Unfortunately, the ECB did not buy public debt for long periods of time, a matter that was subsequently corrected. This is why Spanish and Italian risk premiums skyrocketed. As long as the ECB does not buy public debt from troubled countries, or adequate measures such as those proposed here are not taken, it will continue to be dangerously vulnerable to that speculation. That the ECB is the body that can do it turns out this way because it is the only institution that can print money without any limit. It can, therefore, buy as much public debt as it wants or as it deems necessary.

2.3. The all-powerful power of financial markets

Lately, we have been talking about the "tyranny" of international capital flows in determining the prices of some financial assets that have a capacity to substantially influence the evolution of real economic variables and their capacity to "impose" economic policies on governments (formerly those of the third world; nowadays also those of the first).
The experience of the most recent years is a clear exponent of the above submission. In addition to the alteration of international financial relations after

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recapitalization of banks or to purchase sovereign debt. Bond issues are backed by guarantees provided by euro area member states. The EFSF can be combined with loans of up to € 60 billion from the European Financial Stability Mechanism (MEEF) and up to € 250 billion from the International Monetary Fund to obtain financial security of up to € 750 billion. If no financial operations are carried out, the European Stability Mechanism (ESM) would close after three years, on June 30, 2013. However, the rescue fund was activated in 2011 to lend money to Ireland and Portugal, so the Fund will exist until your last obligation has been fully repaid.

[9] The main tasks of the European Central Bank are as follows: define and execute the monetary policy of the euro zone, direct foreign exchange operations, take care of the foreign reserves of the European System of Central Banks and promote the proper functioning of the infrastructure of the financial market. Furthermore, you have the exclusive right to authorize the issuance of euro banknotes. Member states can issue euro coins, but the amount must be authorized in advance by the ECB. Unlike the style of central banking in the United States, in which liquidity is presented to the economy through the purchase of Treasury bonds by the Federal Reserve Bank, the Eurosystem uses a different method in which there are over 1,500 eligible banks that can bid on short-term repurchase agreements ranging from two weeks to three months in duration. In effect, banks borrow cash and must repay it. Short periods of time over the life of the loan allow interest rates to adjust continuously. When the repurchase securities expire, the banks participate again. An increase in the number of securities offered at the bond auction allows an increase in liquidity in the economy, while a decrease causes just the opposite effect. Contracts are made on the assets of the balance sheet of the European Central Bank and the resulting deposits in member banks are recorded as liabilities. In simple terms, the responsibility of the Central Bank is that of money, and an increase in deposits in member banks carried as a liability of the Central Bank, means that more money has been put into the economy.

the collapse of the system established in Bretton Woods[10], in the early 1970s, there has been a rapid expansion of private international financial markets as well as the elimination of restrictions on the movements of capital in industrialized countries that has favored their integration[11]. Precisely, this fact would have specifically sought the expansion of capital flows that, despite the strong external imbalances that took place during the previous crises of 1973-1975 and 1979-1980, have had their maximum development since 1982 and, more specifically, from the neoliberal policies of the Reagan-Thatcher tandem. The embodiment of this enormous growth in capital flows, even faster if we were to speak in gross terms, is a spectacular increase in the stock of international loans (net of the multiplier effect via deposits by the banking system). Another reflection of this expansion of capital flows is transactions in the currency markets.

3. PROPOSAL FOR A SOLUTION TO THE PROBLEM

Interest payments on Spanish public debt reach a considerable and worrying volume. Neither the personnel costs nor the item for all the ministries together are equal to the bill that the Government plans to pay only for the interest on the public debt, which in 2015 already exceeded 100% of Gross Domestic Product for the first time in more of a century. The General State Budgets (GSB) for that year anticipated a total of 35,490 million euros for these financial expenses, 12% more than in 2014, which represented an average of almost 100 million euros per day. The subsequent improvement in the markets, which drastically reduced the profitability required to put your money in Spanish bonds and bills, did not offset the increase in public liabilities in the presented accounts.

By financing the fiscal deficit with an increase in the internal debt, the date on which inflation will be unleashed is only postponed, that is, the resources are provided now, but it is a debt that will have to be paid inexorably in subsequent years. The payment of interest on a fiscal debt increases State expenses,

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[10] Until July 1, 1944, the American town of Bretton Woods (New Hampshire) seemed oblivious to what was happening in a world ravaged by World War II. But that month, this small tourist enclave, located at the foot of the mountain range whose peaks recall the names of more than ten American presidents - among whom the imposing Mount Washington stands out- hosted a meeting that would link its name to the history of capitalism. To the Bretton Woods hotel it was not just the capitalist countries, but the supremacy of the USA. would be evident from start to finish. From the choice of venue (relatively logical if you consider that the war was still far from ending in Europe) to the very agreements of the conference. The rest would be done by the Cold War, which gradually moved away from the agreements, understood as an international system of regulation of capitalism, to the countries where *real socialism* was practiced, relegating them behind the *iron curtain*. From the point of view of the agreements reached between the 44 participating countries - an amount that is not negligible considering that most of Asia and Africa were European colonies and that Europe was broken - the conference was a success for the United States. USA This country managed to impose its proposal, formulated by the economist Harry Dexter White, before the British initiative, whose paternity corresponded to the prestigious John Maynard Keynes (1883-1946).

[11] The presence of foreign investors in the main domestic financial markets is a clear indicator of their degree of integration. Even more significant is the extreme rigidity with which this participation can vary (upward or downward) in very short periods of time. The change that has occurred in the nature of investors is highly symptomatic of the expressed integration. Progressively, the so-called "institutional investors" (pension funds, insurance companies, ...) whose portfolio diversification processes stimulate this increasing interrelation have acquired a determining role.

further increasing the future deficit. The result may be higher inflation in the future, a problem that does not occur if the deficit is financed by issuing money from the beginning. In other words, borrowing today at high interest rates may temporarily put off inflation, but at the risk of incurring a higher inflation rate in the future.

There is an old and well-known maxim in economics, like so many others attributed to the great J. M. Keynes, which we could explain like this: “If you owe ten thousand dollars to your bank, you have a problem with your bank. If you owe ten million dollars, the bank has a problem with you." Well, in the case of our beloved country, which is slowly and imperceptibly recovering from a deep economic crisis and, above all, with a not inconsiderable foreign debt (public and, above all, private), its leaders could take good note of it. In my opinion, the so-called "markets", which buy us debt of all kinds, have with us a problem as much or more serious than the one that can be assumed in a reciprocal sense.

To get out of doubt, the first thing would be to clarify that the interest on debt securities is the price that Spain has to pay because someone buys its bonds. The price depends on how many bonds Spain is going to sell (the bond offer) and how many bond buyers there are (the bond demand). If there are many buyers of bonds the interest will be low because even offering little interest there will always be someone willing to buy that bond. If, on the contrary, buyers are scarce and Spain puts many bonds on the market, it is possible that there are not enough buyers and to attract more buyers, Spain must offer them more attractive conditions, that is, higher interest. It is simply the old rule of supply and demand.

This is how it is explained what happened in the past, when the furious gale of the crisis hit with force the doors and windows of Spain. In Spanish public debt issues, few people were willing to buy at low rates, and so Spain was being forced to offer very high interest rates. And why were few people willing to buy Spanish bonds at low rates?: because there were many people who thought that the State might not be able to return the money when the bond matured. Why did they think that?: Because they had studied the amount of money that the State had to return in the coming months (see the previous table no. 3) and the income that it was generating and believed that the State's income might not they gave enough to satisfy all the amounts that he had to return to his creditors.

The markets focused their speculative attack on Spain because they considered that, at that time, it was the most vulnerable country in the Eurozone. If the markets continued to demand these high interest rates for a long time, the average cost of debt could soar above 5%, and in this case, experts considered that Spain would enter a critical situation, always taking into account the sustained recession[12] that had been dragging its battered economy.

[12] Recession is understood as a significant fall in economic activity that occurs in the economy as a whole and for a sufficient number of months, and which is visible in terms of production, employment, real income, and other indicators. A recession is, in short, a general decrease or loss of economic activity in a given country or world area. This reduction in economic activity is measured through the decrease, in the

Well, how long can countries suffering from speculation (especially those in the south of the Eurozone) endure this situation? Economics experts try to set limits that jeopardize the ability to repay. The alarms go off when the interest rate is at levels similar to those of the countries that in the past had to ask other countries for help in order to continue meeting their payment obligations. This in itself is not dangerous if it were a merely punctual or circumstantial event, but it is dangerous if interest rates are maintained at these levels for a long time.

If the interest is too high, a country can decide not to issue the debt, but in this case, how do we finance the existing gap between state income and expenses? We know (we have explained it before) that a country issues debt because it spends more than it enters. Since he does not have enough income to meet all his expenses, he asks someone for money to cover the expenses; That someone is the debt buyers. That country may decide not to issue debt at a specific moment if it considers that the rates are too high but if it suffers a considerable gap between income and expenses, at some point it will be forced to issue said debt, since otherwise it will not be able to pay the expenses you have committed.

Now, once the problem has been located and the situation analyzed, what proceeds is to try to find solutions. How to get out of this situation? How to build that missing trust? In short, how can we avoid that enrichment (in my opinion, illegal) that is taking place at the expense of certain countries?

Precisely for this reason, and wanting to punish usury and uncontrolled speculation, the Spanish and / or European monetary authorities could adopt simple measures that would put an end to such despicable wild speculative practices, apart from the usual introduction of the Tobin tax[13] on transactions. financial, the possible issuance of so-called "eurobonds" or "euro letters", or the prohibition of "short" operations.

This set of measures practically comes down to two:

1) The “RULE 10” (affects debt interest rates): the sum of the interest rates on the debt that must be paid by any country in the euro area, both those that are contracted at any time in the Capital markets, such as those that expire through previous contracts, cannot under any circumstances exceed the 10% barrier. So, v. gr., if in the current 10-year State

year-on-year rate, of the real Gross Domestic Product, and it must occur in a generalized way during a significant period of time.

[13] It was precisely the anti-globalization movements that picked up the proposals dictated by the **Tobin Tax**, making it the symbol of the fight against free trade. However, the paradox lies in that recognition, which as **James Tobin** himself, Nobel Prize winner in Economics, commented, "the *loudest applause comes from the wrong side*". Putting ourselves in a situation, let us remember that in 1972, during a colloquium, this Keynesian university student, shortly after the administration of President Nixon will remove the United States from the **Bretton Woods** system, suggested a new system for international currency stability, imposing a penalty to them. The curious thing is that with which it has been falling in the financial markets, the Tobin rate has again become current as a tool to control those markets, which, driven by speculation, seek to incorporate controls on capital movements. In essence, when the concept was defined, the **Tobin rate** consisted of a special tax on each of the speculative financial transactions (ITF) in foreign exchange operations.

Obligations auction an interest of 6.5% has been achieved, only past-due interest of 3.5% could be paid regardless of the initially established contract, in whose clauses this possibility of variability of the type. This 10% cap could be modified depending on the class, term or nature of the debt title in question, as well as by general economic circumstances.

2) The “BALANCE RULE” of the debt flow (affects the principal or nominal debt): in reality, this rule establishes a correction to the previous rule in the event that, as a consequence of its application, you do not want to acquiring any or not enough debt from the issuing country by the markets (although a determined policy of acquiring the public debt of the affected country, by the ECB, could also correct this situation that could arise in the future). It consists of limiting the payment of the principal of the debt, at all times, to the amount of contracting new debt. Thus, for example, if debt of a certain country were not placed in an auction, that country would not be obliged to repay the debt previously contracted and, in any case, the amount of said refund would always be limited by the volume of the debt simultaneously incurred in the markets. This solution seems better than that of allowing the common bank of the affected country to print its common currency to meet its debt, since this could mean breaking one of the golden rules for the single currency and the ECB (see note 9).

In order to implement these measures, the appropriate regulations[14] must be created by the monetary authority and ratified, where appropriate, by the European Parliament. Of course, they should never be applied with retroactive effects[15], although the new contracts that are formalized for the acquisition of public debt must, since then, contain the corresponding clauses. And in addition, its scope should be extended to all the countries of the euro area to avoid comparative grievances between them.

4. PUBLIC DEBT AGAINST THE CORONAVIRUS COVID-19

When I wrote these lines (April 2020) the shock caused by the coronavirus pandemic for the global economy and financial markets begins to remember the 2007 crisis, but making it worse. No one came into an economic recession specifically from the hand of a virus, but it is already enshrined in the "crystal ball" of economists as a safe option. The unknown in all forecasts is the variable

[14] The Community Regulations (Secondary Law) are mandatory community provisions for all Member States and are directly applicable to them as of their publication in the Official Gazette (DOCE) and entry into force. Through them, the European Union disciplines its own policies and organization.

[15] As a general rule, and specifically in the Spanish case, article 2.3 of the Civil Code establishes that "the laws shall not have retroactive effect if they do not provide otherwise", non-retroactivity that is also proclaimed by art. 9.3 of the Spanish Constitution in relation to sanctioning provisions that are not favorable or restrictive of individual rights. The principle of non-retroactivity is based on "the wishes of legal certainty and security and the respect of acquired rights and beneficial legal situations" (Supreme Court ruling of May 30, 1984), with the consequence that the interpretation of the rules of transitory law must be carried out in a restrictive sense and, therefore, without extending the legal terms to situations not covered.

time: longer duration, greater damage. Therefore, analysts are making a cautious approach based on different scenarios. In the worst of them, the Covid-19 plunges the world GDP and leaves it immersed in a lasting recession with significant socio-economic repercussions.

Given this dark panorama, the European economy, and the Spanish in particular, as we will see, will suffer significantly, especially due to the blow to the tourism sector, which will represent more than 12% of our Gross Domestic Product (GDP). But almost no sector is safe from this pandemic. In addition, analysts do not rule out an L-shaped shock in which the world champions face a slow recovery phase after a catastrophic accident. We are, therefore, faced with the dreaded scenario of the economic recession. McKinsey's analysis[16] proposes that if it is shown that it is not seasonal, that is, that it is not affected by spring in the northern hemisphere, the economy will stop in its tracks.

In Spain, probably, we will have a difficult inheritance to erase: the highest public debt in the last 120 years, which makes us especially weak and defenseless in the face of what lies ahead. Spanish public debt will clearly exceed the 100% threshold over GDP for the third time since they have records. This time it will not be like in 2014, when the three figures were surpassed by the hair (a few tenths) and for a short period of time. On this occasion, the economic recession is much deeper, while the fiscal stimulus could also be higher, generating a malevolent combination (revenue collapse and more public spending) that raises public debt beyond 110%. If the Bank of Spain gives a range of between 110% and 122% of GDP, there are panels that speak of 130%. The IMF, benevolently, sets it at 113.4% in 2020 and 114.6% in 2021.

Turning back to the painful economic history of Spain, the most negative milestone is in 1880, when the country's public debt was accounted for, according to IMF data, which began that year, at 161.72% of the GDP. The next peak in debt came, for its part, in 1902 with a figure equivalent to 123.61% of GDP at that time. It came from the times of the 'black legend' of Spanish debt.
With little room for maneuver to increase public spending and shore up the economy, Spain enters the coronavirus crisis in a very difficult fiscal position: it has one of the highest levels of deficit and public debt in the European Union. In the Spanish case, the public debt of 95.5% of GDP at the end of 2019, with a total of 1,188,893 million euros, is 1.32% more than a year earlier what had happened to 1,173,348 million euros, according to data published by the Bank of Spain, being the sixth highest in the EU. Only Greece (176.6%), Italy

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[16] The McKinsey 7S Model is a framework for organizational effectiveness that postulates that there are seven internal factors of an organization that need to be aligned and reinforced in order for it to be successful. This Model is an organizational tool that assesses the wellbeing of seven internal factors of an organization as a means of determining whether a company has the structural support to be successful. The Model comprises a mix of hard elements, which are clear-cut and influenced by management, and soft elements, which are fuzzier and influenced by corporate culture. The 7S Model specifies seven factors that are classified as "hard" and "soft" elements. Hard elements are easily identified and influenced by management, while soft elements are fuzzier, more intangible and influenced by corporate culture.

(134.8%), Portugal (117.7%), Belgium (98.6%) and France (98.1%) registered higher public debt.

Fear of a new debt crisis has prompted the Spanish government to propose to the EU the creation of a reconstruction fund endowed with 1.5 billion euros and based not on loans but on subsidies to the countries hardest hit by Covid-19, like Spain and Italy. This would involve making non-repayable transfers instead of repayable loans, which would exacerbate indebtedness.

Spain and many other countries will suffer great economic turbulence due to the coronavirus crisis. The announced debt data is the worst available since 1902. Those are the conclusions of the IMF after it was announced that GDP will fall by 8% this year 2020, a figure even worse than those set in the economic crisis of the year 2007.

The coronavirus pandemic has shattered forecasts and good omens for many economies. The Spanish Ministry of Economic Affairs indicates that the debt registers an year-on-year increase of 15,545 million euros. In relation to the Gross Domestic Product, it stands at 2.1 percentage points less than in 2018 (97.6%), although the final GDP figure for 2019 will not be known until later. If this data was confirmed, which would be the lowest ratio since 2012, Spain would have met its goal of ending 2019 with a debt of no more than 95.9% of GDP, something that according to Economic Affairs has been possible thanks to the "significant" drop in emissions net of the Treasury, investor confidence in the Spanish economy and efficiency in the administration's treasury management.

But 2020 presents itself with the darkest auguries for the Spanish and world economy, so the previous forecasts, as happens with worrying frequency in the economic field, should be kept in the dusty trunk of memories, and the need to find Solutions to the public debt crisis, such as those proposed in this article, are increasingly pressing.

5. CONCLUSIONS

Since the outbreak of the 2007 economic crisis, both the comparative risk premium with German debt and the high interest rates to be paid have represented pressing and recurring problems for the public debt of the southern Eurozone countries. The Greek situation of recent times has revealed, in all its harshness, the previous problem, which will now be exacerbated, worldwide, by the crisis of the coronavirus COVID-19 and the economic recession caused by this unsuspected pandemic.

After a description of the state of the problem in some countries and its evolution over time, and with the purpose of safeguarding them from uncontrolled speculation, the proposal is made that the Spanish and/or European monetary authorities could adopt simple measures that would end such speculative practices. These measures can be divided into two: a) the “RULE OF 10”, which affects the interest rates of the debt and b) the “BALANCE RULE” of the debt flow, which affects the principal or nominal debt.

In order to implement these measures, the appropriate regulations must be created by the monetary authority and ratified, where appropriate, by the European Parliament. These regulations should not be applied retroactively, although the new contracts that are formalized for the acquisition of public debt must, from then on, contain the corresponding clauses. And in addition, its scope should be extended to all countries in the euro area.

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