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PUBLIC DEBT AFTER THE COVID-19

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ABSTRACT

The Covid-19 pandemic brought a number of challenges to all countries of the world. Among the most affected areas is the economy that is going through a difficult situation, that also we should see as an opportunity to restart the global economy in another point of view. But the question that arises is where to start. In fact, some boundaries need to be considered. One of the main aspects of the economy, the limits of which are extremely important, is public debt. This article presents an overview of the public debt situation, how it is projected to be by the end of 2020, providing some proposal on how public debt can be reduced. There are three main questions the article poses: 1. Has the public debt of developed countries reached unsustainable levels? 2. How will the debt be refinanced after the pandemic? 3. Where will states find the money to cover the deficit, but also to pay off dues? The first problem encountered is that the debt is being repaid with more debts, making central banks use the technique of injecting money into the economy. In all economic crises, central banks have increased money in circulation that is a temporary solution and does not last forever. In the article is treated the monetary policy that might be used from the government to pursue the period after the pandemic. Each option comes with a solution, but that solutions are not "ideal". The side effects of these options can bring unpleasant results.

Keywords: Covid-19, economy, public debt, money, deficit, Central Bank, money injection, monetary policy, solution

INTRODUCTION

The economic thoughts, based on the economic situation created by Covid-19 crisis are coming together at one point, that, in addition to the difficulties created, it presents an opportunity to "Restart" the world economy, on a completely new basis. Some of the questions that should get the answer are: "What are the limits of the current economic system? Should we start from zero? What mechanisms and function will work out?" Most well-known experts and professionals in the international financial market, are reaching to the the idea that the current economic system has reached its limits, where the first limit reached is that of public debt nevertheless of the terms and instruments used in this situation. Global public debt at the end of 2019 reached 255% of world GDP. It is predicted that 2020 will pass this level, maybe even 15% more. The question comes after is: as much as the debt can still increase, how far can its ratio to GDP go at the end of this pandemic year. There have not been a lot off world studies and literature before the pandemic on this issue. (The most complete edition is that of 2018, by RAY Dalio, “BIG DEBT CRISES-Principles for Navigating”, which analyzes the debt crisis and hyperinflation in Germany in 1918-24, the US debt crisis 1928-37, that of year 2007-11 and the ways of how they were their adjusted.

Three unanswered questions:

First: Has the public debt of some developed countries reached unsustainable levels? As paradoxical as this may seem, we live in a time when the debt problem is being solved with more debt (something that it is solved with more money). In all the moments of great economic crises after the 80s, but especially after 2008, 2011 and 2020, the same policy was used: "injecting money into the economy".

Today many economists are beginning to accept the idea that the world economy is behaving as a drug addicted, who comes and increases his dose. The thesis of "injecting more money into the economy" is reaffirmed by the latest funding approved by the EU (Next Generation of 750 billion Euros) and the US Congress (900 billion Usd).

Second: How will the debt be refinanced after the pandemic? From a theoretical point of view there is an answer. Any economic entity (state, company, individual) is considered financially viable when it is credible to borrow and even more credible to transfer its debt payment obligations in the future. Thus, theoretically, they play the role that the Central Bank plays in the economy of a country. Is there a more reliable economic institution than a Central Bank? They never run out of money, as long as they have the ability to "print" (issue) them in the desired (necessary) quantities. Although this is a pattern that, in addition to being "immoral", as it passes the bill on to future generations, it cannot be infinitely sustainable. Goes against the laws of nature and economic logic itself. States cannot become pyramids and even more so, when these pyramids are large and the economic effects of their bankruptcy are catastrophic. In the economic literature in order for debt to continue to be repaid (repaid or refinanced), the wealth created must grow at a faster rate than the debt generated. It is the same as when riding a bicycle. If the pedaling stops, due to inertia, the bike continues to ride for some time, but, then, the bike stops. Many analysts point out that if GDP is negative for the next 12 months, then there is no amount of money that can cover the debts. If a $ 2-3 trillion Usd, increase in the Fed's budget deficit scares the world, imagine the debts of countries like Italy, Spain or France, how much they will worry the world and especially the European Union.

Third: Where will the states find the money to cover the deficit, but also to pay off arrears? Let us return to the economic theory. The classic answer is simple: "They will issue treasury bills." But who will buy them? Certainly not the governments of other countries that could have surpluses or low debt, as always happened, nor the big financial companies. They will instead sell bonds because they need liquidity because the above mentioned have been hit by the pandemic too. Who else will sell existing bonds? Large companies to compensate for lost income, pension funds to increase their income because they cannot receive interest and all those entities that, need liquidity. Who will then buy them? Central Banks. Where will they find the money? They will simply print (issue) money. Central banks consider themselves omnipotent, because they can increase their balance constantly and forever. As all those who already analyze the new functions of banks say, only God can create from nothing, something of value. God and the banking system! And above all it will not be added paper money, but money in bank accounts that will be spent with credit and debit cards. This is one of the most fundamental changes in the monetary system, the effects of which it is highlighting below analytically.

MATERIAL AND METHOD

Theoretical solutions to public debt. There are theoretically three options available for governments' economic policies to pursue after the Covid-19 pandemic, but none of them are pleasant:

The first option, to bankrupt their countries by not paying part of the debt. Resolving bankruptcy is virtually impossible, especially when talking about large economies. Given that the dollar and the euro are already a reserve currency in almost all central banks, the bankruptcy of countries that have these currencies like, capital reserves, would be catastrophic for the global economy. The example of Argentina's bankruptcy is still one of the biggest economic policy debates of the IMF and even after 30 years, it remains dependent on financial institutions, banks and the IMF, and furthermore is also a burden for them.

The second option, to adopt austerity measures, drastically cutting public spending. Coercive measures face their challenges. Their implementation requires strong political will. When a government implements austerity policies, it often faces strong popular reactions, protests and unrest. In addition, they have dubious results. Spending cuts and tax increases tend to shrink GDP, further worsening debt-to-debt ratios. The domestic deflation policies implemented in Greece after 2011 showed this real implemented results of the theory. For the first time, the IMF and the EU acknowledged that they acted wrongly in dealing with the debt crisis with southern European countries.

The third option, the less harmful policy, is inflation. The currency is deliberately devalued to "erode the real value of the debt." Lenders will be paid in full in the amount lend to you, however, due to inflation, the money they will receive is worth less. With less wealth production, we can pay off larger amounts of debt. Assume that the best solution is inflation, it should of course have taken in consideration that there are negative side effects, which we are temporarily not analyzing. Of course, it is easy to say that I want inflation, but as we have seen in practice, it is difficult to achieve inflation that boosts the economy. In modern money issuance policies, left no doubt that inflation does not depend solely on the money supply. The demand for money plays a key role in promoting it, a phenomenon that is mainly demographic and is connected with the consumption by age behavior, that usually falls with the aging of the population that in principle creates deflation. But there is another structural reason. Technology is in itself deflationary. With less effort, fewer hours of human labor, more goods are produced. Technological advancement increases productivity. Goods are cheaper because they cost less. Here is another factor that opposes in our time "development inflation". Result comes that Central banks not only often fail to create the desired inflation, but face the phenomenon of wanting to avoid the nightmare of deflation at all costs. Theoretically, an increase in liquidity does not mean that revenues increase automatically, and therefore GDP. The increase at the end is related also to the speed of money circulation. When there is no demand for money its speed decreases and consequently does not affect the size of the GDP. What happens then? The demand for money increases only by those who have money and direct the money received to the financial market. But not everyone thinks that this is how we should develop. Even international organizations are not optimistic about this policy. The 2008 financial markets bubble taught the Central Banks a lot, but above all, that the repeated mistake is to blame. The first problem that should be avoided with inflationary policies is to stop the widening inequality gap. The money issued should not go to the financial markets, but to those who have no money and will spend it directly on the market. The poorest use money to buy the necessities of life. Not for investment. How many more shirts can a billionaire buy? How much more can you consume even if you choose only luxury items? No matter how large the consumption of very rich people is, it is not possible to direct most of it to consumption and consequently to the real economy. Only a prosperous middle class can achieve this. Here we return again to the objective of all electoral programs; creating a middle class. Beyond moral or social concerns, when wealth accumulates in the hands of a small elite, it is negative for economic activity itself, lesson that is already understood by everyone. Perhaps, the time has come for "basic global income", as explicitly supported by the World Economic Forum, but also the IMF itself. In the case of the pandemic, the beginning was made. Governments "distribute to their citizens so that they do not work" even though they wanted to work. Now in the "Pandemic Time" governments are seriously thinking that this is the only way out to address the social problem of rising unemployment. But how will the middle and poor be financed to stimulate consumption in the real economy?

RESULT AND CONCLUSION

Technology solution to public debt - Smart money

In the modern world of the digital banking system we are increasingly learning that, Gobsek's money described by Honoré de Balzac no longer exists. If we have an electronic wallet on our mobile, in which the employer will set the salary, when we go shopping, we will scan the QR-Code of the product with our mobile and the money will be automatically deducted from our account. We will not be required to go to the supermarket checkout. You do not need paper money and bank cards as long as you have a smartphone and internet access. But how will Central Banks use this technology to achieve the inflation they want? How will they manage to put money directly in everyone's e-wallet? Will they press the buttons and split the money? And where will they find them? From nowhere? Are they going to make money at that moment from nothing? This is example that exactly what happened in China. In the city of Shenzhen, the authorities distributed free Renminbi (the official currency of the country) and free digital lottery (election). The 50,000 people who received them had two conditions (1) they could spend them in a certain period of time and (2) only in the 3,000 selected shops of the city; Because they were considered "smart money", there was the possibility of planning them. For example, if they were not spent within one month they were returned and were not valid for the next month. Here's how the speed of money that was required to be realized increases with increasing demand. What other effects will the new digital money or so-called "Smart Money" have? It will make easier for citizens to file tax returns, while the government will control all transactions and collect all taxes due on them. This could eradicate the informal economy and corruption, which is one of the reasons for the increase in public debt. There will be no reason for tax employees to go from entity to entity, to control taxes. This raises a big issue when it comes to reducing the size of the state, but on the other hand reduces government spending and consequently debt. If the state and Central Bank want more inflation, then they will give an even bigger bonus. This will create an extra incentive (social assistance) for someone who was in poverty. On the other hand the productive power would be reduced. What effect does it have when the productive power is reduced? Fewer manufactured goods corresponding to more money. Here's how to put consumption for use together with your debt settlement. In this system the way in which wealth is distributed changes radically. The condition for the realization of this hopeful or dystopian scenario, is the devaluation of cash. Yes, but for what? Here we have the following paradox: if the currencies of all states depreciate at the same time, practically no one depreciates. Everyone is interconnected. So in what respect will they depreciate? The answer comes from the richest man in the world, Mr. Bill Gates. During the pandemic, he said: "We are facing the largest transfer of wealth in human history". The value of bonds and treasury bonuses depends on the value of the currency. If the currency has depreciated, so will the bonds and treasury bills and consequently the debts will depreciate. This is what the IMF is proposing. A global deal, equal to Bretton Woods. All states will print the same amount of currency (according to% of GDP) at the same time, implement the same tax on income policies for very rich. By restructuring debts, they will build large public investment programs, especially by encouraging those related to green energy, digitalization and infrastructure. These are the optimistic notes on the eve of the recent onset of the economic crisis caused by Covid-19. But is this a report of defined ideas or decisions? It remains to be seen. However, do not you find it strange that international organizations, whose role so far has been to promote the ideas of the free market, come up with "proposals that even Marxist economists dare not make"? No one knows where this transformation will lead. The change is so colossal, so substantial, that the books on macroeconomics will probably have to be rewritten from the first chapter. After the first chapter from the middle of the book onwards, everyone will make assumptions about how it will unfold. Assumptions, but not yet findings and estimates.

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