RESTRICTIONS IMPOSED BY THE COMMUNITARIAN MONETARY UNION IN THE USE OF THE PUBLIC DEBT IN ORDER TO FINANCE THE SUBCENTRAL LEVELS OF GOVERNEMENT. THE SPANISH CASE.

Dr. Antonio Aparicio. Departament of Public Law.
Dr. Santiago Alvarez. Departament of Economics.
University of Oviedo.
Avda. del Cristo s.n.
33071.- Oviedo (Spain).

Abstract.

The justification of the public debt as a financial mechanism of the descentralizated levels of government can be found in the fiscal federalism theory. As it states, the subcentral governments have the mission of providing public goods, while the central level of government has to assume the redistributive policy and the estabilization policy. Then, the correct use of the public debt by the Autonomous Communities would be to solve the intergenerational equity problems in the public goods financing when the benefits of a public investment project will be materialised in the future. This framework of the fiscal federalism theory is contained quite accurately in the Spanish legislation.

To the restrictions in the use of the public debt as a financial mechanism we should add other curbs. One of them came from the necessity of our country of reaching the criteria convergence in order to take part into the UE Monetary and Economic Union, and nowadays, as the euro has been introduced, , limits are being imposed by the stability plan. As we know, the achievement of the nominal convergence between the states which are going to adopt the Monetary Union, has required an important reduction in the public deficit and a limitation in the total debt of the public Administration. In this sense, although it has not been placed under 60% of the GPD, advances have been made.

In this paper we will focus on the study of the incidence of two factors: the LOFCA regulation and the limits introduced by the EC on the public debt of the Spsnish Autonomous Communities.

1. The introduction of the European Single Currency and its effects on the finances of EC countries.

The European Council held in Hannover, 1998 entrusted a commission of experts presided by Delors to prepare a report proposing the specific stages of the European Monetary and Economic Union (EMU). This report was published in April 1989 entitled **"Report for the Monetary and Economic Union in the European Community"** and based on this, a three-stage process has been articulated:

- **First phase.** Developed between 1/7/1990 and 31/12/1993. Its basic objectives consisted in making advances in constructing the domestic market and in achieving the economic convergence of the EU member states which, to achieve this aim, made a commitment to design long-term convergence programmes.
- **Second phase.** Developed between 1/1/1994 and 31/12/1998. The objectives set for this second phase, in addition to being the continuation of those implemented in the previous stage are the creation of the European Monetary Institute, the origin of the future European Central Bank that will be in charge of managing the EU monetary policy following the implantation of the euro, and the independence of the Central Banks from their governments (compiled in our country in the Law of Autonomy of the Bank of Spain which came into force on June 2nd, 1994). This means, among other things, the end of privileged financing for the public sector and the prohibition of monetization of the public deficit, that is to say, of the recourse of governments to the credit of their central banks to finance their deficits.

Undoubtedly, the culminating moment of this stage was the European Council held on May 3rd, 1998 in which the countries which will accede to the third stage of the EMU were selected, the bilateral exchange rates were announced and the creation of the European Central Bank was made official.

- **Third phase.** Began on 1/1/1999 and will signify the culmination of the EMU process with the implantation of the euro and the establishing of a common monetary policy headed by the European System of Central Banks.

The implantation of the single currency in this third phase will be carried out in three stages[1]

- **First stage,** will cover up to 31/12/2001 at the latest and in this stage the national currencies will continue to be used to make and receive payments although financial and commercial operations can be referred in euros.
- **Second stage.** Between 1/1/2002 and 30/6/2002 at the latest there will be a period of coexistence between national currencies and the euro.
- **Third stage,** from 1/7/2002 the euro will become the legal tender for the countries forming part of the EMU.

Fulfilling these objectives obliges the countries making up the EMU to adopt a common monetary policy but, contrary to theoretical models, has not led to the implementation of

[1] These stages as well as the chronoligy for attaining the EMU are described in the work España, plan de transición al Euro published by the Minister of Economy and Public Finance, 1998.

a centralised fiscal policy[2] but rather this continues to be entrusted to the national authorities. Nevertheless, the budgetary policies should have a high degree of co-ordination which has been imposed first by the convergence criteria required in order to form part of the EMU and, once convergence has been achieved, by the so-called pact of stability and growth.

For the selection of the eleven European countries which will form part of the euro which took place in the European Union Council held from May 1st-3rd, 1998[3], consideration was made to the fulfilling of a series of indicators of nominal economic convergence as follows:

- Stability of prices, the average rate of inflation during the year prior to the review, measured by the consumer price index on a comparative base cannot exceed by more than 1.5% the average of that of the three member states with better price stability.
- Participation in the European exchange rate mechanism. During the two years prior to the review the currency will be between the normal fluctuation margins established by the European System of Exchange Rates without suffering any depreciation.
- Interest rates. During the year prior to the review the average nominal long-term interest rate will not exceed by more than 2% that of the average of the three countries with greater price stability.
- Sustainable public finance. The deficit of the public budget cannot exceed 3% of the GDP and the public debt will not exceed 60% of the GDP. These have been the criteria which have been evaluated with most flexibility, enabling the countries to exceed these figures should substantial progress have occurred in the last few years which bring the value of these magnitudes near to the reference limits. In fact, in the Meeting of the Ecofin Council held on May 1st 1998,the valid decisions on excessive public deficits which currently only apply to Greece had to be abolished and the criterion referring to the public debt will be applied exercising great flexibility.
- The review of the convergence produced the results compiled in Figure 1.

Figure 1.
Fulfilling convergence criteria

Country	Inflation 2.7	Interest Rate 7.8	Public Deficit 3%	Public Debt 60%	Exchange rate	Convergence
Austria	1.1	5.6	2.5	66.1	Yes	Yes
Belgium	1.4	5.7	2.1	122.2	Yes	Yes
Finland	1.3	5.9	0.9	55.8	Yes	Yes
France	1.2	5.5	3.0	58.0	Yes	Yes
Germany	1.4	5.6	2.7	61.2	Yes	Yes
Ireland	1.2	6.2	+0.9	66.3	Yes	Yes
Italy	1.8	6.7	2.7	121.6	Yes	Yes
Luxembourg	1.4	5.6	+1.7	6.7	Yes	Yes

[2] This fact is highlighted in the work by Vicente Fernández Rodríguez. Información Comercial Española, nº 767, 1998, pp. 35-50.
[3] An excellent summery of this Council has been made the Cabinet of The Second Vice-President of The Government and The Minister of Economy and Public Finance and is published entitled “Reuniones especiales del Consejo de la Unión Europea, 1-3 de mayo de 1998” in the nº 2.571 del Boletín Económico del ICE, pp. 3-7.

Spain	1.8	6.3	2.6	68.8	Yes	Yes
Low Countries	1.8	5.5	1.4	72.1	Yes	Yes
Portugal	1.8	6.2	2.5	62.0	Yes	Yes
Denmark	1.9	6.2	+0.7	65.1	Yes	Yes*
United Kingdom	1.8	7.0	1.9	53.4	No	No
Sweden	1.9	6.5	0.8	76.6	No	No
Greece	5.2	9.8	4.0	108.7	No	No

- Denmark, despite fulfilling the criteria for convergence has excluded itself from the third phase of the EMU.

Source: Cabinet of the second Vice-president of the Government: "Special Meetings of the European Union Council, May 1st .3rd". Economic Bulletin of the Ice, No 2571, pp5.

Once the third phase of the EMU has been achieved, the rules of the fiscal policy are projected towards the future by means of the pact of stability[4], adopted in the meeting of Ecofin held in Dublin in December, 1997. This pact prohibits annual deficits in the consolidated budget of the Public Administrations over 3% of the GDP unless in exceptional circumstances or should there be a severe fall in the Gross Domestic Product of the country (which should be situated at over 2%). Regarding the public debt, the objective of lowering this to around 60% of the GDP is maintained.

With the data available from 1991 we can point out that most of the EMU countries have adopted a path of budgetary discipline which has enabled them to substantially lower the public deficits, despite the fact that the figures of public debt have not only not been lowered but rather have considerably increased in the same period. Professor Fuentes Quintana[5] (5) in his analysis of the Spanish situation, has pointed out how this reduction of the public deficit can only have been achieved by means of a policy of consolidation of the public expenditure and not by increases in taxation. Nevertheless, and despite the fact that the data of the evolution of average tax burden in the 15 countries of the European Union reveal that in the period 1983-1995 this has only increased by 2% of the GDP, it seems difficult that the proposed contention of the public deficit will be achieved in most of the countries by means of the contention of public expenditure, without this being accompanied by increases in the tax burden[6].

The Plan of Convergence designed by the Spanish Government in 1994[7] in which the 1992 Programme of Convergence was brought up to date, in view of the fact that the economic crisis which broke out in 1993 impeded its fulfilment, recognised the fact that the deficit could only be reduced by cuts in public expenditure: "The individual tax

[4] The basic aspects of the stability pact are commented on in the work by Jesús Ferreiro Aparicio: "El pacto de estabilidad: implicaciones para la construcción de la UEM". Boletín Económico del ICE, nº 2.535, 1997, pp. 21-31.

[5] Enrique Fuentes Quintana: "España y su ingreso en la Unión Monetaria Europea: algunas consideraciones sobre el examen de convergencia de 1998". Perspectivas del Sistema Financiero, nº 61, 1998, pp. 5-27.

[6] Ken Messere: "OECD Tax developments in the 199s". Bulletin of Intenational Bureau of Fiscal Documentation", July 1997, pp. 298-314.

[7] Ministry of Economy and Public Finance: Updating of Convergence Programma. July 1994.

burden which arises from the current Spanish tax system does not advise seeking higher incomes during the period covered by the scenario by means of the regulated increase of incomes. In the absence of increases in the individual tax burden, the increase in the fiscal burden in terms of the GDP will depend, basically, on the success of the struggle against fraud and the overall progressivity of the tax system (….) The fact that the reduction of the public deficit in the next few years has to fall, fundamentally, on discretionary actions regarding the growth rate of public expenditure conditions the rate foreseen for the reduction of the deficit"[8]. This reduction of public expenditure does not mean, as the Programme points out, its complete reduction, but rather a decrease in its growth in relation to the growth of the GDP of each year. The budget scenarios contemplated in the Programme are compiled in Figure 2.

Figure 2.
Deficit and active debt, period 1994-1997.
Previsions of the 1994 Convergence Programme.
(In percentage of GDP).

	1993	1994	1995	1996	1997
Public Admin. Deficit	7.3	6.7	5.9	4.4	3.0
I.-Central Public Adm.	6.1	5.7	5.1	3.8	2.7
- State	5.8	5.0	4.6	3.5	2.5
-S.S. y AA.OO.	0.3	0.7	0.5	0.3	0.2
II.-Public Adm.Territ.	1.2	1.0	0.8	0.6	0.3
Net Debt	55.8	60.7	63.9	65.5	65.2
Gross Debt	57.8	62.7	65.9	67.5	67.2

Source: Ministry of Finance, 1994.

Nevertheless, in 1995 a notable increase of the deficit compared to the forecasts was recorded and the fit in 1996 and 1997 had to be greater than foreseen, just as we can see in figure 3. Regarding the public debt, this has not been lowered as much as foreseen.

Figure 3.
Deficit and active debt, period 1991-1997.
(In percentageof GDP)

	1991	1992	1993	1994	1995	1996	1997
Deficit	4.9	3.6	6.8	6.3	6.6	4.4	2.6
Debt	45.8	48.4	60.5	63.1	65.7	70.1	68.8

Source: Joan Elías : El desafío de la moneda única Europea. La Caixa, Colección Estudios e Informes, Nº 7, 1997, pp. 79 y 80 for years 1991-1996. For year 1997 : Bank of Spain: Informe sobre la Convergencia, marzo de 1998.

The new Programme of Convergence for the period 1997-2000 which aims to meet the requirements of budgetary discipline required by the pact of stability foresees a continuous reduction of the deficit as well as of the public debt, in such a way that in the

[8] Ministry of Economy and Public Finance: Updating of Convergence Programma. July 1994, p. 30.

year 2000 these are situated around 1.6% and 65.3% of the GDP, respectively. The bases for obtaining these forecasts are the following:

a) Moderate evolution of government consumption which must have a lower importance in the GDP:
b) Maintenance of social security payments
c) Streamlining of the public company reducing the importance of government aid.
d) Increase in public investment
e) Reduction of the tax burden.
f) Contention of the public expenditure of the set of territorial administrations, each one making a commitment to achieving its deficit objectives.

In summary, the evolution of our public finance as a result of the convergnece objectives required by the EMU is going to be marked by a line of discipline and austerity. In this sense, the Bank of Spain unequivocally states[9]:
"Definitively, the current cycle of recovery that the Spanish economy is undergoing provides a favourable framework for the continuity of the consolidation process of public finance, in such a way that, if the line of austerity and budgetary discipline is maintained, quick improvements in the deficit and debt ratios can be attained in the following years. These improvements are absolutely necessary, since, in the framework of the EMU, the public finance of the member countries will be subject to fulfilling the pact of stability and growth, which entails not only the maintenance of the standards defined by the convergence criteria of Maastricht in fiscal matter, but also the rapid approach to a situation of budgetary equilibrium".

2. The Budgetary consolidation and its effects on the debt of the Autonomous Communities.

The classic theory of fiscal decentralisation is based on Musgrave´s functional theory (1959).This functional theory considers three types of task to be achieved by the public sector: a stabilising function which attempts to bring the economy close to its level of full employment with a low inflation, a redistributive function of national income and wealth and an allocative function focused on production and the efficient allocation of public goods[10]. Of these three functions the stabilising and redistributive ones should be entrusted to the central level of the public finance and the allocative function justifies the existence of the subcentral levels of government as they are entrusted the production of local public goods.

With this distribution of functions between the different levels of government the crisis of the Keynes theory and the doubts existing about the suitability of the recourse to public debt to stimulate the aggregate demand affect the central level of government which has been entrusted the task of achieving macro-economic stability more than the territorial

[9] Bank of Spain: Report on Convergence, March, 1998, p. 15.
[10] The different functions of the Public Administrations and their assignation between different government levels are described, among others, in the book by Javier Salinas Economía política del Federalismo Fiscal Español. Instituto de Estudios Fiscales, 1991, 37 and the following pages.

public finances[11]. In effect, the Autonomous Communities should only recur to debt to solve a problem of intergenerational equity in the production of goods and services. Musgrave makes this explicit: "The budget of the services should not always be balanced in the sense that expenditure is levelled by income from taxes. This will be the case if meeting public needs has the nature of current consumption but not for capital expenditure. In the case of capital expenditure the release of private capital and its transfer to meet of public needs can be performed adequately by means of a debt-purchase mechanism , rather than by a tax-purchase mechanism[12]. Monasterio and Pandiello have clarified this justification of the recourse to debt: "When part of the benefits of a project are going to materialise in the future, the equitable financing of this requires future beneficiaries to support part of the cost of the work. This can be achieved by financing the project by the issue of debt in such a way that costs and benefits coincide in time"[13].

Therefore, in the conception of the classic theory of fiscal federalism, the use of debt by the subcentral levels of government is limited to the financing of investment projects whose benefits are going to be extended over time.

This theoretical framework has been faithfully compiled in our legislation. Hence, the constitutional law of financing of the Autonomous Communities (LOFCA) has regulated the recourse to credit of the Autonomous Communities in its Article 14. This legal framework compiles the distinction between public debt which is applied to the issue of public debt and the contraction of credit, loans arrranged with a private individual or financial entity. At the same time, a distinction is made between short-term debt, due to treasury needs, and medium- and long- term debt for financing investments and between external and internal debt[14]
The requirements which public debt must meet are as follows[15]:Firstly, as already mentioned, that it should be used to cover investment costs.

- Secondly, when indebtedness materialises by the issueof debt or the arranging of credit operations in foreign currency, the authorisation of the State will be necessary to carry out the operation.
- The overall indebtedness of each Autonomous Community, to preserve its financial equilibrium, is limited in such a way that the service charge of the debt, that is to say, the annual expenditure for the amortization of the debt plus the payment of the corresponding interest, cannot exceed 25% of the current income of the Community.
- Finally, there is a general limitation caused by the determinants of the economic policy of stabilisation which obliges the credit operations of the Autonomous Communities to be co-ordinated with one another and with the State economic policy within the Council of Fiscal and Financial policy.

---

[11] See Javier Suárez Pandiello: "Las Comunidades Autónomas y su endeudamiento. Un test sobre sus causas". In Enrique Moldes and Pedro Puy (editors): La financiación de las Comunidades Autónomas. Minerva Ediciones, 1996, pp. 186.
[12] Richard Musgrave: The Theory of Public Finance, McGraw-Hill, 1959, Spanish edition by de Editorial Aguilar, 1967.
[13] Carlos Monasterio and Javier suárez Pandiello: Financiación Autonómica y Corresponsabilidad Fiscal en España. Fundación BBV, 1993, p. 80.
[14] See Antonio Aparicio and Carlos Monasterio: La Hacienda de la Comunidad Autónoma del Principado de Asturias. Editorial Tecnos, 1993, pp. 97.
[15] Compiled in Carlos Monasterio and Javier Suárez Pandiello: "El endeudamiento autonómico. Teoría y evidencia empírica", Fundamción BBV, colección Documenta, 1993, pp. 7.

Despite these limitations, the fact is that the debt of the Autonomous Communities which had undergone a moderate growth in the so-called transition period and until 1988, when most of the transfers of competence of expenditure were completed, experienced from this date onwards an accelerated growth, more marked until 1992 when, within the financing agreements for the period 1992-96 the first frameworks of budgetary consolidation were set, as shown in Figure 4.

Figure 4
Evolution of the Autonomous Community debt 1986-1996
(thousands of millions pesetas).

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Andalucía	39	83	191	282	427	534	622	690	845
Aragón	6	5	7	21	44	72	95	109	122
Asturias	7	13	17	32	46	49	57	66	67
Baleares	2	4	6	22	32	38	44	46	44
Canarias	25	27	29	47	60	91	110	114	167
Cantabria	13	27	39	46	43	43	39	35	24
C La Mancha	4	11	13	16	38	47	69	75	83
C León	7	7	17	34	56	80	115	132	141
Cataluña	164	196	212	290	405	533	730	965	1176
Extremadura	2	2	4	7	35	52	67	73	83
Galicia	9	15	48	127	182	234	288	331	372
Rioja	1	4	9	16	17	18	19	22	20
Madrid	35	77	116	187	231	312	380	421	459
Murcia	19	33	43	60	74	82	88	89	91
Navarra	6	7	6	5	41	76	109	131	129
País Vasco	56	68	92	116	151	199	253	293	327
Valencia	31	51	94	162	236	307	377	417	502
Total	508	725	1,053	1,624	2,322	3,029	3,804	4,340	5,128

Source: Bank of Spain, Boletín Estadístico, various years.

As we can observe from these data, the growth of debt has been explosive, a fact that experts have attempted to attribute mainly to failures in the calculation of the effective cost of the transfers received by the Autonomous Communities and because of the tendency of the autonomous governments to increase expenditure without asking their citizens to make sacrifices via increases in their tax burden. In this sense, it is sufficient to recall that differentiated fiscal policies do not exist between the different Communities, that the Communities have not exploited the possibility of establishing surcharges on state taxes and that the revenue of their own taxes established by the different autonomies is highly limited.

We should point out that, in our opinion, the system designed has two basic defects. Firstly, as has already been mentioned, the limit of the financial burden is related to the volume of current revenue of each Community. This brings it about that as these communities receive more competences, their current revenues also increase and they can make new increments in the level of their debt.

Secondly, the LOFCA has not established any sanction system of sanctions for the Autonomous Communities that do not respect the established limits of debt. This has meant that many Autonomous Communities have not fulfilled the requirements, just as we shall go on to see. This situation is particularly worrying at the present time as if they have not respected these limits to debt it is fitting to suppose with the more reason that they will not respect the commitments of budgetary consolidation to adapt the overall deficit of the Public Administrations to the requirements of the Monetary Union.

In effect, in the work of Monasterio and Pandiello (1993)[16], analysing the 1986 to 1990 period, it is affirmed that only three Autonomous Communities (Asturias, Cantabria and Galicia) have respected the limit of the destination of debt, the other communities having employed the long-term debt to finance current expenditure. The limit of the financial burden with respect to current resources has been exceeded in the 1986-1900 period by Cantabria and Murcia.

Because of all of these non-fulfilments it became essential, from 1992 onwards, to define a framework of budgetary consolidation enabling the convergence objectives of Article 104.c of the European Union Treaty to be met. Taking into account that the Autonomous Communities have become great producers of public debt we should not be surprised that in the Agreement of the Council of Fiscal and Financial Policy held on January 20, 1992 the need to proceed to an adequate budgetary co-ordination between the different levels of government was emphasised:

"The need for a greater fiscal convergence in the scope of the EEC is a requirement for Spain´s entry into the group of countries participating in the third phase of the process of the Monetary and Economic Union. This budgetary convergence requires a progressive reduction of the Need for Financing, in terms of GDP, of the Public Administrations, which requires a co-ordinated action of the budgetary policy of the Central Administration and of the Autonomous Communities".

This need for co-ordination was materialised in the Programmes of Convergence, in that of 1992 as well as in its updated version in 1994, as seen in Figure 2 which shows the deficit objectives foreseen in the 1994 programme. The scenarios for debt of the Autonomous Communities were set in 1992 and revised in 1995. The following figures compare the real debt of each Autonomous Community at the end of each financial year with the debt contemplated in each of the two consolidation scenarios for the period 1992-1996, the last year for which we have liquidated financial years.

[16] Work cited, pp. 10.

Figure 5,
Degree of fulfilment of budgetary consolidation scenarios,
1,992-1,994 (data in millions of pesetas)

	1992		**1993**			**1994**		
	Real D.	Scen., 1992	Real D.	Scen. 1992	Scen. 1995	Real D.	Scen. 1992	Scen. 1995
País Vasco	151,000	152,648	185,900	200,975.8	198,320.2	239,000	241,409.3	252,318
Cataluña [17]	405,000	326,549.6	533,400	384,499.7	519,995	730,500	430,026.1	625,335
Galicia	182,000	186,649.9	234,100	244,217.1	247,155	288,100	281,640.6	299,636
Andalucía	427,000	495,374.4	534,200	618,103.5	617,163	622,500	711,127.1	718,398
Asturias	46,000	57,499.4	44,800	68,060.5	62,544	57,200	75,673.4	67,990
Cantabria	43,000	57,127.4	43,300	67,231.3	48,828.7	39,400	75,219.2	44,451
Rioja	17,000	25,937.7	18,700	29,401.4	20,825	18,900	31,578.7	20,825
Murcia	72,000	65,770.4	81,600	73,579.4	76,386	87,900	78,100.7	82,450.6
Valencia	233,000	188,033.1	304,200	232,901.7	263,824	404,500	261,958.2	302,131.2
Aragón	44,000	54,225.6	72,300	74,617.4	77,912.3	97,000	85,662.1	111,440.3
C,- Mancha	38,000	39,560.4	47,400	53,862.2	54,665	69,200	64,304.7	65,934
C, León	56,000	57,101.5	73,000	77,467.4	80,664	97,000	95,066.6	97,262.2
Canarias	60,000	80,779.1	91,700	103,544.8	102,115.6	109,800	117,713.8	129,843.6
Navarra	41,000	38,790.6	76,300	78,807.8	76,591	84,000	101,095.7	110,123
Extremadura	40,000	42,726.4	56,000	56,566.6	68,029	63,000	67,676.8	80,494
Baleares	32,000	29,536.8	40,000	37,421.1	34,128	43,000	42,525.1	38,839
Madrid	231,000	239,648.4	260,000	278,587.9	273,958.3	281,000	306,220.3	317,736

Source: Bank of Spain and Counciel of Fiscal and Financial

[17] The debt scenario of Cataluña has already been reviewed in 1993 to be later reviewed in 1995 alike the rest of the Autonomous Communities.

<u>Figure 6,</u>
Degree of fulfilment of budgetary consolidation scenario of 1995
1995-1996 and objetive debt form 1997
(data in millions of pesetas)

	1995		1996		1997
	Real Debt	Objective Debt	Real Debt	Objective Debt	Objective Debt
País Vasco	293,000	296,379	327,000	332,623	359,653
Cataluña	965,000	708,271	1,176,000	759,451	790,875
Galicia	331,000	342,508	372,000	372,608	400,108
Andalucía	690,000	810,539	845,000	876,062	910,464
Asturias	66,000	75,676	67,000	81,446.9	84,946.9
Cantabria	35,000	38,377.8	24,000	31,883.2	31,048.8
Rioja	22,000	22,315	20,000	22,903	22,903
Murcia	89,000	87,046.4	91,000	90,166.4	91,928.2
Valencia	417,000	332,941.6	502,000	355,272.3	367,799.9
Aragón	109,000	129,440.3	122,000	142,440.3	148,940.3
C,- Mancha	75,000	74,884	83,000	79,987	83,487
C, León	132,000	111,662	141,000	120,594	125,421
Canarias	114,000	139,829.6	167,000	148,079.6	153,079.6
Navarra	131,000	134,660	129,000	162,774	162,452
Extremadura	73,000	89,070.3	83,000	93,353.3	95,853.3
Baleares	46,000	44,107.4	44,000	49,224.3	52,124.3
Madrid	421,000	348,645.6	459,000	368,331.6	379,053.9

Source: Bank of Spain and Counciel of Fiscal and Financial

The following conclusions can be drawn from the data :
Firstly, and for us the most worrying of all, the review of the scenarios for debt of 1995, in agreement with the data, was made in virtue of the past debt, in such a way that the Autonomous Communities with greater accumulated debt and that least fulfilled the 1992 scenarios were those to which a greater capacity for growth of future debt was allocated. On the contrary, Communities such as Aragón which easily fulfilled the objectives set for 1992 saw how their debt limits were lowered in the 1995 review.

This situation of increase in the debt limits in terms of the existing debt poses serious doubts as to the efficiency of the scenarios as an instrument for limiting the deficit and debt in the Autonomous Communities. This is all the more so when, as we have already mentioned, there does not exist any sanction system for the Communities which do not fulfil the limits and in addition these Communities are used to not meeting the LOFCA requisites without sanctions.

In order to correct these problems, it might be fitting to consider some type of economic sanction- for example a decrease in State transfers- for those Communities that do not meet the stipulated objectives, just as there exists a sanction systems imposed by the European Union for those countries exceeding the deficit objectives compiled in the pact of stability and growth passed in Dublin in 1996. It must be recognised that, any way, these sanctions are easier to apply should the public debt objectives not be fulfilled than if the public debt objectives are not fulfilled, as in the second case the Central Administration is the first to not respect them. In fact, as shown in figure 1 of this work, only Finland, France, Luxembourg and the United Kingdom have met the requisite that their public debt besituated below 60% of the GDP, which forced this convergence criterion to be relaxed.

Secondly, we must point out that, compared to the Communities that have systematically fulfilled the assigned debt objectives (this is the case of País Vasco, Galicia, Andalucía, Cantabria, La Rioja, Aragón and Extremadura) and others which have complied with them in some financial years, there exist some Communities which have never fulfilled them. This is the case of Murcia, Valencia, Madrid except in the financial year of 1992 and in particular Cataluña where debt is rising at an alarming rate and in 1996 amounted to approximately a quarter of the total foreseen for all the Autonomous Communities in the consolidation scenario.

Thirdly, and this data seems to us to be particularly worrying, in the recent financial years the number of Communities not complying with the foreseen scenarios has increased. This occurs with Castilla León from 1995, Castilla la Mancha from 1994, Canarias from 96 with a very strong increase in debt in that year. Only in the case of Baleares has the opposite contrary tendency been recorded, the debt decreasing in that year (1996).

The fact that the number of Communities exceeding the debt has increased endangers the fulfilling of future objectives and makes us fear that this responds to the fact that some autonomous governments are beginning to consider that it is the Communities.. most in debt which receive better treatment and there are no incentives to follow the path of contention of the arranged debt.

The current bilateral negotiation for the debt scenarios between the State and each of the Autonomous Communities, before being submitted to the Council of Fiscal and Financial Policy, makes us ask ourselves whether a struggle will occur between communities to obtain a higher portion of debt from a previously set total. In this case, we fear that the objectives of lowering the deficit and the debt accumulated will never be fulfilled as this, in our opinion, requires equipping the system with a stable financing framework, with greater fiscal co-responsibility and a commitment by the different governmental levels to fulfil the important objectives that our country has set itself upon forming part of the European Monetary Union.

References.

- Aparicio Pérez, Antonio and Monasterio Escudero, Carlos : La Hacienda de la Comunidad Autónoma del Principado de Asturias. Editorial Tecnos, 1.993.
- Banco de España : Informe sobre la Convergencia, March,1.998.
- Elías, Joan : El desafío de la moneda única Europea. La Caixa, Colección Estudios e Informes, Nº 7, 1.997
- Fernández Rodríguez, Vicente : " La política fiscal española en la UEM : márgenes de maniobra y pacto de estabilidad ". Información Comercial Española, Nº 767, 1.998, pp. 35-50.
- Ferreiro Aparicio, Jesús : " El pacto de estabilidad : implicaciones para la construcción de la UEM ". Boletín Económico del ICE, Nº 2.532, 1.997, pp. 21-31.
- Fuentes Quintana, Enrique : " España y su ingreso en la Unión Monetaria Europea : algunas consideraciones sobre el exámen de convergencia de 1.998 ". Perspectivas del Sistema Financiero, Nº 61, 1.998, pp. 5-27.
- Gabinete del Vicepresidente Segundo del Gobierno y Ministro de Economía y Hacienda :" Reuniones especiales del Consejo de la Unión Europea, 1-3 de mayo de 1.998 " en el Nº 2.571 del Boletín Económico del ICE, pp. 3-7.
- Messere, Ken : " OECD Tax developments in the 1.990s. ". Bulletin of the International Bureau of Fiscal Documentation ", July 1.997, pp. 298-314.
- Ministerio de Economía y Hacienda : Actualización del Programa de Convergencia. July 1.994.
- Ministerio de Economía y Hacienda : España, plan de transición al Euro , 1.998.
- Monasterio Escudero, Carlos and Suárez Pandiello, Javier : Financiación Autonómica y Corresponsabilidad Fiscal en España. Fundación BBV, 1.993.
- Monasterio Escudero, Carlos and Suárez Pandiello, Javier : " El endeudamiento Autonómico. Teoría y evidencia empírica ". Fundación BBV, colección Documenta, 1.993.
- Musgrave, Richard : The Theory of Public Finance, McGraw-Hill, 1.959, Spanish edition by Editorial Aguilar, 1.967.
- Salinas Sánchez, Javier : Economía política del Federalismo Fiscal Español. Instituto de Estudios Fiscales, 1.991.
- Suárez Pandiello, Javier : " Las Comunidades Autónomas y su endeudamiento. Un test sobre sus causas ". In Enrique Moldes and Pedro Puy (editores) : La financiación de las Comunidades Autónomas. Minerva Ediciones, 1.996.