

Summary

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“Application and Development of a Lending-Indicator in Public Finance Based on Bohn’s Sustainability Approach”

The question of whether public debt in Europe’s largest economy is sustainable in the long run has received great attention. After all, Germany breached the three percent deficit threshold of the “Stability and Growth Pact” in four successive years, i. e. from 2002 to 2005. In this paper I investigate whether German public finances - Federal and all State governments - have been sustainable during the last four decades. This means finding answers to the following questions: How have German governments reacted to the accumulation of approximately 1.5 billion euro of debt? Have they taken corrective action, or have they let the debt grow? Closer empirical discussion of these questions is also important because of the recent political discussion and new institutional proposals to limit future debt policy by the federal commission (“Föderalismuskommission”). My paper is the first to empirically analyse the sustainability of fiscal policy in Federal Government (“Bund”) and the Federal States (“Länder”). I analyse debt behaviour in Germany on the basis of a unique and newly constructed data sample covering 1970 to 2005. The results are surprising: Fiscal policy is far more sustainable than originally supposed. My paper is the first to apply Bohn’s sustainability criteria to Germany and two Federal States - Baden Württemberg and Berlin.