9 Institutional determinants of public debt: a political economy perspective
Bernd Süßmuth and Robert K. von Weizsäcker

Introduction
What militates in favor of public debt? ‘Hardly anything’ we would answer from an economist’s point of view. ‘A lot’ might be the straight answer of a politician. In Germany, for example contemporary conservative politicians frequently claim that every German newborn is burdened with an amount of public debt equalling some (hundred) thousand Euro. A likewise frequently raised argument by their opponents is the necessity of public debt as a means to finance prospective investment in education, infrastructure, and so on, that is, as a means of ensuring intergenerational equity. The aim of this chapter is to scrutinize this antagonism and its institutional determinants in representative democracies.

The rise of the problem
The dramatic increase of public indebtedness in recent years is an international phenomenon observed for many industrialized economies. Figure 9.1 makes the point. Presently, public debt in Germany has reached its post-World War II all time high. In real terms and, certainly, not solely due to German Reunification indebtedness is of an enormous dimension. Table 9.1 summarizes the recent development of public debt and interest payments. Interest payments of issued public securities have become the third largest item of total public expenditures. In a dynamic context, public net borrowing to interest payment on average equalled 90 percent for the period 1990–2004 according to calculations based on figures given in the annual report of the German Federal Court of Auditors (Bundesrechnungshof 2004).

Additionally, today it seems more difficult than ever to get an overview of the full extent of public debt. Besides a myriad of classification problems, a multitude of special assets (Sondervermögen), side-budgets and sub-budgets at the state and local level emerged. These phenomena, though already observable before Reunification, particularly proliferated thereafter.

Redemption and amortization payments of public debt make about 70 to 80 percent of total gross borrowing since the 1990s. In certain circumstances follow-up financing officially allows the German government the amortization of outstanding debt by issuing new public debt, that is, debt rescheduling. However, such debt rescheduling is officially only possible for
**Sondervermögen**, that is, special assets of the German Federal Government. Those are exempt from the broadly worded constitutional constraint (Artikel 115, Abs. 2, Grundgesetz). According to the assessment by the German Federal Court of Auditors, the Bundesrechnungshof, the exceptional role of these assets represents an ‘invitation to excessively issue public debt’ (Bundesrechnungshof 2004, pp. 85–86). Indeed, their share constituted on average one fifth of total debt during the years from 1990 to 2004. Ultimately, this development led to a complex side by side of scattered public liabilities which facilitates window dressing practices. For a recent overview of creative accounting in the European Union (EU), that is, shifts of fiscal expenditures off the respective national budget and hiding fiscal policies in less visible positions see von Hagen and Wolff (2004).

**Is it possibly justified on economic grounds?**
Given the immediately tightening financial scope, the serious consequences on aggregate capital, and the implied considerable problems of intergenerational equity, is there any economic justification for the accumulation of public debt? Basically three arguments are quoted in this context – none of which being really satisfactory to our view: The strategic countercyclical use of deficits to combat recessions, public debt as a means of tax smoothing, and governmental indebtedness as a side-effect of creating intergenerational equity by ensuring intertemporal shifts of the financial burden of public investment.

*Source:* German Federal Ministry of Finance (Finanzbericht 2004).

*Figure 9.1 Debt to GDP ratio (percent): an international comparison, 2003*
The first argument is ultimately of Keynesian origin and thought. Accordingly, in a contractive phase credit backed deficits ought to be used strategically in order to mitigate a supposed lack of demand. The idea is to trigger an expansionary multiplier effect on national income and employment. This form of public ‘deficit spending’, however, is usually accompanied by some crowding-out of private activity that might counteract or ultimately offset the expansionary effect. Whether a temporary increase of public debt actually stimulates aggregate demand is neither empirically nor theoretically clear. And even if we agree with the sketched Keynesian position, the application of such policies implies numerous practical problems. For example, consider the troublesome process from the detection of a cyclical downturn (a complex task on its own) to the parliamentary decision to take action. Obviously, we would expect an unforeseeable delay that could make a discretionary fiscal policy in order to stabilize cyclical fluctuations nearly impossible. In the case of a less active policy, that is, no real action apart from keeping up spending taken by the government in recessions, the concept of so-called ‘automatic stabilizers’ recently attracted some attention. The basic idea is that in a recession tax revenues decrease along with aggregate income. The lowered aggregate tax burden, however, has a positive effect on the multiplier. This positive effect may bear

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<td>10.55</td>
<td>21.09</td>
<td>0.32</td>
<td>0.63</td>
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<td>26.98</td>
<td>86.05</td>
<td>0.98</td>
<td>3.13</td>
<td>0.63</td>
<td>1.95</td>
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<td>64.37</td>
<td>142.02</td>
<td>3.47</td>
<td>7.66</td>
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<td>2.42</td>
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<td>1980</td>
<td>239.60</td>
<td>317.02</td>
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<td>1.99</td>
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<td>2.66</td>
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<td>2000</td>
<td>1211.44</td>
<td>967.04</td>
<td>67.70</td>
<td>54.04</td>
<td>3.34</td>
<td>7.07</td>
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<td>1053.20</td>
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<td>51.83</td>
<td>3.14</td>
<td>5.46</td>
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Note: Comparable historical figures for accumulated public debt as a percent of German GDP can be found in Ritschl (1996): 1913: 63%, 1920 (excluding reparations): 72%, 1932: 55.2%, 1938: 67%, and 1944: 217%. As the current values are close to the 1913 and Weimar Republic levels, we should not fail to mention that historical experience teaches us that there has never been a ‘soft landing’ following an indebtedness of this dimension.

Sources: Federal Statistics Office, Bundesbank (monthly reports), Eurostat, own calculations; note: real figures are in 1990 prices.
an upswing and is, so to say, self-induced. Again, the empirical evidence is weak or mixed. For example, in Fatas and Mihov (2001) the historical existence of automatic stabilizers for the European G7 economies is confirmed, while in Süßmuth (2002) it is clearly rejected.

A justification based on the tax smoothing hypothesis aims at preventing the setting of distortionary incentives that negatively influence the behavior of economic agents. It ultimately seeks to minimize the implied welfare losses of such a behavior. The idea is that if the state were not to borrow on the capital market, transitory fluctuations of public revenues and expenditures would raise the need of a respective adjustment of the tax rate. In particular for public projects and in situations requiring large amounts of financial means, a volatile tax rate would imply considerable efficiency costs. The argument continues in proposing a straightforward way of bridging the temporary budgetary gap by means of public debt. This way the government might achieve an optimal, ‘smoothed’ temporal allocation of the tax burden and contribute to a social cost minimizing financing of public spending. Support of this view is both theoretically as well as empirically rather weak and mixed (among others Fatas and Mihov 2001; Süßmuth 2002). Therefore, in our opinion welfare losses induced by a distorted behavior of economic agents do not represent an essential fiscal cause of the creeping development of public indebtedness (see also Chen 2003; Grilli et al. 1991).

It remains to discuss the final common justification of the accumulation of public debt: the idea of a temporal displacement of taxes raised in order to finance public investment. Essentially, an investment represents a reduction in today’s consumption at the gain of an additionally augmented consumption in the future. Therefore, it seems reasonable to burden the actual beneficiaries of a public investment with the respective costs of this investment. However, as strong as this argument might sound, it did not really find its application in reality. The enormous increase in public indebtedness in the last twenty years was definitely not accompanied by a respectively raised public investing activity.

If we cannot make a good case for credit based policy, why is it then that we observe such a persistent and excessive indebtedness in so many industrialized economies? Is it really a rationally used instrument of fiscal policy that we are analyzing here? We doubt it. To our view these excessive public deficits are driven rather by political than strictly economic factors. From a political economy perspective, the contradiction between myopic incentives in representative democracies and long-term needs of public finance triggers a strategic dilemma which has raised public debt to an enormous dimension.
The political economy perspective

Protection of power and multi-party coalitions
A relatively free access to the credit market represents a direct instrument of a government to relax its budget constraint. Usually, this process is more or less intransparent to the voters. In this context it is noteworthy that two quantities steadily increased in contemporary democracies: discernible public spendings (subsidies to firms and direct transfers to the private sector) and indiscernible revenues (indirect taxation and public debt). Therefore, a first and straightforward hypothesis is that discernible expenditures are raised to gain votes shortly before elections, and the ruling government finances these spendings by indiscernible revenues, preferably debt, in order not to lose voters. Misused in this way, public borrowing would represent a special case of indiscernible taxation for the sake of securing political power. By this behavior, the respective government exploits not only the fact of incomplete and asymmetric information but, in particular, also one of the central aspects of public debt. This aspect is the intertemporal displacement of the tax burden. Public borrowing allows the rise of public expenditures today, while its costs are burdened on tomorrow’s taxpayers who do not play a pivotal role in the re-election calculus of the current government. Those future taxpayers, amortizing interest and redemption payments of today’s debt policies, do not even need to be born today. Of course, such practices of misusing intertemporal displacement for strategic reasons have nothing to do with the intention of a fair generational cost sharing of prospective public investment.

Furthermore, institutional factors and political determinants of economic policy like, for example, governmental party constellations impact on public debt. A democratic constitutional framework takes care of parties being free and independent in their decision-making. However, it seems that especially in multi-party coalitions this principle is a strain on public debt. As can be seen from Figure 9.2 based on average data for the EU-15 economies during the period from 1980 to 2000, public surpluses (deficits) as a percentage of GDP significantly fall (increase) with the average number of parties in government. Not surprisingly, this average number of ruling parties is positively related to the ideological range of parties; see the second scatter diagram of Figure 9.2. As a measure of ideological dispersion we use the one-dimensional Tsebelis-Index reported in Hallerberg et al. (2004a).

Figure 9.3 shows that the more frequently coalitions or ruling parties change, the higher the propensity of a government to accumulate debt (see Roubini and Sachs 1989; Alesina et al. 1993; Poterba 1994; Kontopoulos and Perotti 1999; Hallerberg and Strauch 2002; Hallerberg et al. 2004b). It also suggests that this relationship is nonlinear, that is, convex, in nature.
Institutional determinants of public debt

Figure 9.2 Public deficits, number of ruling parties and ideological range: EU-15 1980–2000

Note: Italy and Greece excluded due to shortfall in data.

Sources: International Monetary Fund (Government Financial Statistics), Hallerberg et al. (2004a).

Figure 9.3 Public deficits and governmental periods of office: EU-15 1980–2000

Sources: International Monetary Fund (Government Financial Statistics), Hallerberg et al. (2004a).
This means that there is a lower turning point in the figures on average public deficits after which they increase with a decreasing number of changes in coalitions and ruling parties.  

How may these observations be explained? In the following we will highlight a potential line of intuitive reasoning which is underpinned with empirical evidence in the proceeding paragraphs. Suppose that all parties in a coalition jointly opt for cutting the budget instead of continuously running large deficits. Nevertheless, every single party of the coalition will seek to preserve its respective budget share, in the form of, for example, administered ministerial offices, from any cuts. This situation represents a fundamental prisoner’s dilemma. If there aren’t any incentives or mechanisms in favor of a cooperative solution, the non-cooperative solution, consisting in simply giving up plans to cut down budgets at all, becomes most probable. This will be all the more the case, the more difficult the agreement process in budgetary decision-making.

Obviously, this process is the more complex, the stronger the degree of ideological polarization, the lower the re-election probability, and the larger the number of ruling parties of a coalition. Therefore, budget deficits and the increasing accumulation of public debt represent to some extent the result of difficulties in politically managing coalition governments.

**Electoral system and strategic behavior**

The above reasoning suggests that the electoral system of a country plays a decisive role with regard to the development of its public debt issuance. For example, a strictly proportional representation system tends to generate a large number of ruling parties, while a plurality system tends to keep small parties off parliament. Additionally, as illustrated above, the frequency of changing coalition governments as well as the number of parties participating in these coalitions positively impact on a state’s propensity to accumulate debt. In fact, we find countries with a proportional electoral system running large deficits and showing high levels of indebtedness. See the first entry in Table 9.2.

A related indicator, reflecting a central characteristic of the electoral system of a country, is given by its district magnitude. It measures the number of representatives from each electoral district. In other words, district magnitude relates the ratio of the number of representatives elected from one district to the total number of districts. For example, the district magnitude of the German two-tiered proportional representation system with an adjustment of seats in parliament is $1/630$, while it equals just one for the plurality system of the UK and 23 for the strictly proportional system in Belgium. In general, plurality systems elect only one representative per district. They encourage a two-party system and are most likely to
have a one-party majority government, while proportional systems show more variation in their district magnitudes and potential governments (multi-party majority/minority or one-party minority). Several studies indicate that the number of effective parties in a system is strongly and positively correlated with its district magnitude (for a recent survey see Hallerberg et al. 2004a). Following our argumentation above, this implies tighter debt policies in countries with smaller district magnitudes. Indeed, we find countries with district magnitudes of less than five in value to run smaller deficits and to be less likely to coincide with a proportional system; see Table 9.2.

To generalize further, we claim the following: the higher the dispersion of power in the conduct of the budget process, the higher the probability of an intertemporally inefficient budget policy. For Germany the former concerns, for example, the distribution of power among Bundestag (German Parliament) and Bundesrat (Federal Council); among the federal government, the Länder (federal states), and communities; among ruling parties in a coalition, and among parties alternating in power as a consequence of intertemporal changes in the constitution of democratic governments.

In a series of papers Jürgen von Hagen and his co-authors and associates construct an index aimed at capturing the most salient features of the budget process in European governments (see, for example, von Hagen et al. 2002). In the construction of this index the following institutional aspects are considered:

1. the structure of negotiations within parliament (determined, for example, by a general constraint on the budget and the degree of agenda-setting power of the finance minister in government);
2. the structure of the parliamentary process (mainly capturing characteristics of parliamentary amendments);
3. the transparency of the budget draft;
4. the flexibility of budget execution (mainly reflecting the potential to ex post change a budget passed by parliament);
5. long-term planning constraints (an index composed by data on the existence and features of multi-annual targets and governmental commitment to them); and

### Table 9.2 Deficits and electoral systems: correlations, EU-15 1980–2000

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<tr>
<th>Proportional system</th>
<th>District magnitude &lt; 5</th>
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<tr>
<td>Deficit (% of GDP)</td>
<td>+ 6.26%</td>
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<tr>
<td>District magnitude</td>
<td>- 19.45%</td>
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Sources: International Monetary Fund, Hallerberg et al. (2004a), own calculations.
6. the relationship between national and sub-national governments (covering, for example, balanced budget requirements at the local level as recently introduced in Sweden).

All these institutional items are operationalized by coding them according to their capacity to reduce the common pool resource problem inherent in public budgeting. This problem denotes the externality which results from the fact that government spending is commonly targeted at specific groups in society while being financed from a general tax fund to which all taxpayers, possibly including future ones, contribute. As outlined above, the common pool resource problem of modern democracies is aggravated by an institutional fragmentation of decision-making. In this sense, the Von Hagen Structural Index can be interpreted as an index of centralization of the budget process (von Hagen et al. 2002). Using latest data on the normalized Von Hagen Structural Index which were recently made available in Hallerberg et al. (2004b), we compute an index of the dispersion of power in the conduct of the budgetary process. Technically, this is done by respectively subtracting the structural index value from one. Figure 9.4 plots the resulting figures against the 1980–2000 average values of public deficits for the EU-15 economies. The resulting pattern of coherence is striking and confirms our argument.

Sources: International Monetary Fund (Government Financial Statistics), Hallerberg et al. (2004b), own calculations.

Figure 9.4 Public deficits and centralization of budget process: EU-15 1980–2000
What to do? Proposals of institutional reform

In our opinion, the detrimental trend in indebtedness may only be stopped by re-arranging the incentive mechanism in democratic market economies. This intervention can take several forms: it may be a re-arrangement at the constitutional level: it may concern the budget process, the electoral system, or take the form of an (inter-temporal) balanced budget rule. Alternatively, it could imply the obligation to use tax revenues to serve interest and redemption payments. A final action may be taken by the partial delegation of the budgetary process to an independent institution at the national and/or supranational level.

In the following, we shall briefly discuss central aspects of these institutional reform proposals.

Constitutional barriers

A fundamental prerequisite for a prospectively successful fiscal policy in a democracy is a strengthening of the popular awareness of the costs of public goods and services. Today, no one seems to know exactly about the amount of public benefits consumed and about what is actually paid for at the individual level. At the heart of any institutional system concerned with the simultaneous consideration of costs and benefits lies the call for a balanced budget in the short or medium run. A respective restriction should be manifested in the constitution.

Note that this measure does not necessarily require an annually balanced budget. Other recently developed and sophisticated concepts of budgeting are worth considering. Instead of the annual restriction an inter-temporal one may form the base of budgeting. Such an inter-temporal rule takes discounted future income and expenditure flows into account. Ideally, this would be tantamount to a full internalization of the costs of public debt. A straightforward step in this direction could be made by applying the promising concept of Generational Accounting (Auerbach et al. 1991, 1994, 1999). In the period of transition a debt criterion and/or a restriction on the interest-to-GDP ratio seems reasonable.

As a further proposal consider a sort of ‘debt tax’: the obligation to finally balance the budget would imply to explicitly couple the fiscal burden of public debt and taxation. A renewed issue of net debt would then have to be paralleled by an elaborated tax scheme of interest and redemption payments.

From a fiscal policy perspective, the constitutional barrier of public debt in Germany (in particular, Art. 115, Abs. 2, Grundgesetz) has proven to be irrelevant for several reasons; see our argumentation in the first section. Discussing them in detail is beyond the scope of the present chapter. In this context, however, it should be noted that it is again neither a specifically nor an exclusively German problem. Also for the US, constitutional barriers...
have not proven to be a particularly promising and efficient instrument to cut back public indebtedness.

However, this previous experience should not lead us to reject the concept of constitutional barriers as a whole. A first step to remedy the situation would, for example, be given by the thorough identification of potential ways of avoidance and by adapting the legal basis accordingly. This implies taking shadow budgets, side financing, as well as potential loopholes in the federal system into account. Additionally, a positive example from a Pan-European perspective is given by Switzerland. At the cantonal level the possibility to directly vote on public revenue exists. Up to the present, this possibility has led to a remarkable discipline in public spending. Obviously, it represents an efficient control mechanism of the total Swiss budget.

**Budget process**

Recent extensive studies of budgetary processes suggest the reform of the budget process itself as a promising track to follow. A higher propensity to accumulate debt particularly thrives on two fields of potential conflict of interests. First, there is the notoriously conflicting relationship between myopic and long-term targets of budgetary policy. Rules that put a stronger weight on long-term aspects of fiscal policy seem fairly well-suited to lower the propensity to credit back public expenditures. Second, as discussed above in the context of the common pool resource problem, an important role is played by the conflict between common and special interests. Typically, the group of beneficiaries of public spending programs is smaller than the one made up by all taxpayers. Politicians in their role as voted representatives of specific interest groups tend to overestimate the net benefit for society of the spendings they accept responsibility for. From these observations, we infer that an institutional restriction of the impact on the budget by specific interest groups is desirable as it would ultimately lead to more fiscal discipline. In this way it can help in reducing deficits and the accumulation of debt.

**Electoral system**

The call for an institutional reform can also be justified on completely different grounds. As emphasized above, an increase in public spending ultimately needs to be financed by raising taxes. Therefore, the choice between a credit and tax backing of expenditures corresponds to a choice in timing taxes and not to a choice between higher taxes and their complete avoidance. In general, the temporal scope of this ‘timing’ is wider than the one determined by the probability of re-election maximizing strategic behavior of democratically elected governments. This time inconsistency encourages ruling parties primarily interested in securing power as well as voters with
a strong preference for present consumption to irreversibly redistribute
wealth at the expense of future generations.

Therefore, the planning horizon of voters, obviously, plays a decisive
role. From a political economy perspective, a fairly neglected factor
becomes important: the age structure of the population. Voters whose
interests lie with current developments prefer credit as opposed to tax
financing of public goods and services. In particular, they do so in expec-
tation of the phase of interest and redemption payments lying outside their
own economically relevant period of working life. The aging of the popu-
lation, which is particularly observed in the Federal Republic of Germany,
biologically shortens the average time left and increases the general interest
for a further accumulation of public debt. Are there ways to prevent such
behavior? And who would be interested in it after all?

Voters affected in the future are not able to articulate their interests today.
The majority concerned is not even born yet. An indirect participation in
today’s political process seems only conceivable by constitutionally limiting
public debt. However, if it requires constitutional restrictions to protect
future citizens, how can these possibly be introduced today? It decisively
depends on the attitude of contemporary voters. They decide upon the polit-
ical process of feedback, that is, whether the mechanism design of represen-
tative democracies ultimately leads to an exploitation of future taxpayers or
not. Of course, a pressure to consolidate will only develop and be of real
fiscal political dimension if an individual commitment to the future exists.
A natural bridge to the future is altruism, as given, for example, by children.
The larger the share of persons among the population without offspring, the
lower the average interest in distant matters of public finance. Medical
progress, enhanced material prosperity, and altered standards of value have
indeed led to a drastic decline in birth rates. An ongoing of this demographic
development will undermine even the most sophisticated concepts of inter-
genational altruism. It renders the implementation of constitutional
restrictions to public indebtedness an all the more urgent step.

An alternative corrective measure is noteworthy and may be given by
adjusting the electoral system itself. This rather radical measure would
require a constitutional reform and consists in assigning a higher weight to
votes of persons raising children.

However, which majority will ultimately engage and opt for a constitu-
tional balanced budget rule or a reform of the electoral system? This
dilemma manifests a worrying future weakness of competitive democracies.

**Delegation**

A drastic constitutional reform would be to separate the instrument of
public debt issue out of the political process. This partial outsourcing could
take the following general form: the elaboration of public expenditures and tax revenues remains the responsibility of the respective government. With regard to the total budget, however, exogenous limits are set in the form of credit constraints. The control of these limits – taking, for example, the form of a debt criterion or a balanced budget in the medium run – is delegated to an independent institution. In the case of Germany adequate institutions of sufficient reputation are, for example, given by the Bundesrechnungshof or the German Central Bank (the Bundesbank). For further discussion and theoretical underpinning of this proposal see von Weizsäcker (1992), Süßmuth and von Weizsäcker (2006).

**European Economic and Monetary Union**

One could also think of a delegation at the supranational level. Possibly, at this level the problem of the actual realization of a constitutional reform would be facilitated. From a political economy perspective, the national or intrastate bias makes the lion’s share with regard to the growth of public indebtedness. Whatever the suggestion of ways to reform, the political realization remains a serious problem. How can we credibly alter the incentive mechanisms of representative democracies in the presence of contemporary incumbents whose interests conflict with any reform targeted towards an increase in budgetary discipline?

A straightforward idea to overcome this dilemma of credibility at the national level is delegation (of any kind) to an independent international institution. Binding external rules like the Maastricht debt and deficit criteria could represent a corrective measure of the national political bias and, in the broadest sense, increase welfare. The idea is that contemporary incumbents let their hands be tied by a third party. This is done in order to render their re-election chances untouched by the implied, though externally ‘enforced’, cuts and the overall increase in taxes. However, this promising result presumes effective sanctioning mechanisms. These are not given in the current setting of the Stability and Growth Pact or, in fact, have an idiosyncratic efficiency in deterrence (for a detailed discussion see Süßmuth and von Weizsäcker 2006). Besides this argument, external rules as well as delegation, in general, require finding a compromise between credibility and flexibility of fiscal policy. The stipulated price in both circumstances is that these measures may prevent a nationally required deficit spending in the course of tax smoothing or combating recession strategies. In this sense the issue of public debt always represents an elementary conflict between a behavioral regulation and a free disposition.

With regard to the pressing realization of a reform, we suggest delegation of the budget process to an independent entity being the most promising proposal out of the set of recently discussed alternatives. It can be
justified on a comparatively established theoretical foundation and a rich and positive experience in the field of monetary policy.

**Outlook and concluding remarks**

Our survey and discussion of institutional determinants of public debt revealed a fundamental dilemma of self-interests of economic and political agents on the one hand and social welfare on the other. This conflict is and will be further aggravated by the ongoing demographic change. Against the background of existing institutions, the shift in the age structure, and the latest generational accounts, only little hope for a trend reversal exists from a political economy perspective.

The necessary self-commitment of central governmental institutions in order to implement an efficient incentive mechanism going beyond their own best interests seems – not solely for the Federal Republic of Germany – impossible.

It remains a future challenge to elaborate in detail how a government may be bound by constitutional barriers and social norms, and how a representative democracy may be able to endogenously create the respective political institutions. It clearly represents the paramount fiscal policy problem of our society.

**Notes**

1. To assess a potential trade-off between intragenerational and intergenerational equity is beyond the scope of this chapter. For fixed subnational units such as federal states (Länder) in Germany, Amann *et al.* (2006) offer evidence for public indebtedness to have a significant negative impact on student achievements and therefore on both intergenerational (different cohort/same state) and intragenerational (same cohort/different state) equity.

2. Note, we excluded Italy and Greece from the analysis. This is due to the fact that data on changes in coalitions and ruling parties for the Italian economy are only available until 1995. Corresponding data for the Greek economy are subject to shortfall during three caretaker governments from 1989 to 1990.

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