

Debt Brakes and Deficit Limits: On the Constitutional Economics of Intergenerational Justice

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Abstract

From a Constitutional Economic viewpoint, limits on governmental deficit spending are an imperative in the interest of future generations. Based on Public Choice arguments, we show why the widespread arguments in favor of public debt, mostly inspired by Keynesian thoughts, do not hold. On the contrary, it is evident and consistent with empirics that re-election constrained politicians are more inclined to run programs based on deficit spending instead of taxing voters, thus shifting the burden on to future generations. Our first conclusion is hence that the recently introduced German debt brake is a necessary tool to limit governmental leeway in creating deficits, thereby improving development opportunities for the young and unborn. Nevertheless, drawbacks of the current instrument include the vague definition of the term “investment” and the potential manipulation of the business cycle facto. Both are crucial for the determination of potentially legitimate new deficit. Additionally, the brake does not comprise of any strategy to reduce already accumulated debt.

Keywords: Intergenerational justice, public debt, debt brake, constitutional economics

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