GDP for the different levels of government. The federal level and the level of the federal states were submitted to the fiscal rule whereas the municipal level which undertook more than half of overall public investment, but is strictly regulated regarding fiscal deficits, was not. As can be seen in the figures and as is demonstrated by the variation coefficient, municipal gross and net investment is more volatile in general and – more importantly – its correlation with the output gap is much stronger than it is in the case of federal or federal state gross and net investment. Furthermore, the trend of federal and state investment did not decline as sharply as that of municipal investment and most of the substantially negative German net public investment (ESA 1995) was caused by the municipalities.

Nevertheless it is true that the previous German institutional limits to government deficits did not use an economically sensible definition of public investment and left much room for political interpretation. They did neither put an upper limit to transgressions of the deficit limit nor place a requirement to undercut the limit in economically good times. And due to the absence of strong sanctions the degree of enforceability was low (SVR 2007: 62-64). All of this may have contributed to the considerable increase of the German debt to GDP ratio from below 20 per cent in the early 1970s to its maximum of about 80 per cent in 2010. However, it should be noted that much of the increase occurred in economically bad times. And a very large part of the increase in German (federal) government debt relates to the economic and fiscal shock of German unification and later on the financial rescue measures taken during the financial crisis. The unification related debt piled up until 1995 in the federal special funds “Erblasten tilgungsfonds” and “Fonds Deutsche Einheit” amounted to more than 290 bn. Euros or 11.3 per cent of 2010 GDP according to the Federal Finance Ministry. The debt related to the financial rescue packages from 2008 to 2010 amounted to 388 bn. Euros or 15.1 per cent of 2010 GDP according to Eurostat. All of this cannot be attributed to the German investment related deficit rules at the time.

However, if one believes the points mentioned to be important shortcomings then this is not an argument against the Golden Investment Rule as such. To the contrary, in fact, as already mentioned in section 3, to overcome the shortcomings of the old framework, the German council of economic experts argued in favour of a Golden Rule for net public investment which according to his preferences was to be embedded in a suitably strict institutional framework. In the end most of his recommendations as to the strict framework were put into practice in the design of the German debt brake. Unfor-

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6 The figures show fixed capital formation according to the old ESA 1995 definition as this is closer to the relevant investment categories of the fiscal rules at the time.