Unfortunately, the net investment related part of his concept dropped out during the political process and was replaced by the requirement for the structural budget to be (almost) in balance allowing for a general government structural budget deficit of only 0.35 per cent.⁷

### 4.2 The UK’s Golden Rule suspended in 2008/9

The Golden Rule in the UK was introduced under the Labour government’s Chancellor of the Exchequer Gordon Brown in 1997 and was practiced until the March 2008 budget. As a consequence of the budgetary repercussions of the global financial and economic crisis it was suspended in the pre-budget report in November 2008 and has not been practiced any more since the March 2009 budget. The rule stated that the government over the economic cycle would only borrow in order to invest and not to fund current spending. The Golden Rule was complemented by the sustainable investment rule according to which public sector net debt in relation to GDP would be held at a stable and prudent level over the cycle. This level was set at 40 per cent of GDP (Budd 2010: 34-35).

Two main reasons were given for the Golden Rule: First, it was to protect government investment from disproportionately large cuts during potential periods of budget consolidation. In fact, the absence of such protection was seen as a major reason for a decline in net investment and the public stock under the previous conservative government in the past. Second, it was justified by the well-known intergenerational equity considerations, namely that current spending should be financed by current tax-payers whereas public investment also benefitted future tax payers and should therefore be (partly) borne by future tax payers through the debt service. The sustainable investment rule was more difficult to justify because there is no way to determine the optimal debt level for an economy, but it was thought necessary to reduce the risks associated with high and increasing debt levels. Both rules were to be met over the cycle which meant that there was room for the working of automatic stabilisers and even for discretionary fiscal policy (Budd 2010: 35-36).

Except for the regular admission of discretionary fiscal policy – which would in combination with the need to balance the cumulative current budget over a precisely dated cycle later on prove to be its decisive weak point – the UK Golden Rule looked strikingly similar to the Golden Rule sketched in section 3. In fact, there were more similarities

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⁷ For a critical evaluation of the German debt brake see Truger/Will (2013).