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EUROPEAN COMMISSION FOR DEMOCRACY THROUGH LAW
(VENICE COMMISSION)

in co-operation with
the Swiss Federal Department of Foreign Affairs
and
the “Executive Campus HSG of St Gallen University”

in the framework of the Swiss Chair
of the Committee of Ministers of the Council of Europe

CONFERENCE

on “Democracy and decentralisation -
Strengthening democratic institutions through participation”

St Gallen, Switzerland, 3-4 May 2010

INSTITUTIONS TO ENFORCE FISCAL SUSTAINABILITY

by Mr Charles B. BLANKART, Professor
Humboldt University of Berlin (Germany)



Institutions to Enforce Fiscal Sustainability

by

CHARLES B. BLANKART

Humboldt University of Berlin and University of Lucerne

Conference on Democracy & Decentralisation

May 3 – 4, 2010,

St. Gallen, Switzerland

**Workshop N°3: Proper Resources and Autonomy in
Budget Management**



Nobailout and Debt Brakes For Subcentral Governments Compared



I. THEORY

- **Function of debt brakes:**
 - **Under Bailout:**
 - Debt brake is a substitute for Nobailout
 - Mandatory
 - Difficult to enforce because a subcentral government's reputation = public good
 - **Under Nobailout:**
 - Debt brakes have a signalling function
 - Voluntary

I. THEORY

➤ Enforcement

- Nobailout:
 - Enforced by capital market
 - Without defences
- Bailout
 - Enforced by courts
 - Many defences

I. THEORY

- Supplements
 - Nobailout by
 - bankruptcy procedure
 - Predictability
 - Reduction of strategic behaviour
 - Bailout by
 - Regulation
 - Due process
 - Reliable?

II. APPLICATION

- Swiss Cantons
 - Nobailout
 - Debt brakes voluntary
 - Signalling
 - +/- experienced with Leukerbad
- German States:
 - Bailout
 - Debt brakes mandatory
 - But leakages through free riders
 - Reform if too big to be rescued



II. APPLICATION

➤ EU Hybrid System

- Art 126 AEUV Maastricht + Stability and Growth Pact = regulation
- Art. 125 AEUV Nobailout + no procedure => ambiguous
- What to do?
 - Ad hoc procedure, Standard, London Club, haircut, currency devaluation
 - Ad hoc improved, Standard+ London Club + IMF, haircut, currency devaluation
 - De Luxe: London Club + IMF + EU-transfers. Bailout?



THE END

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„Öffentliche Finanzen“