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# New constitutional "debt brakes" for Euroland? A question of institutional complementarity

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**Abstract** Despite the EU Stability & Growth Pact and existing constitutional limits on public deficit/debt at the (sub)national level in many EU member countries, in the wake of the 2010 Greek bailout, many politicians and policy advisors have proposed *new* constitutional "debt brakes" to prevent future fiscal crises and bailouts. This paper puts a question mark behind this popular policy recommendation. Public choice scholars and other critical observers have repeatedly emphasised that constitutional deficit/debt limits are not per se credible commitments to run a sound fiscal policy in the future. To demonstrate this, design defects of such fiscal constraints are usually pointed out (no politically independent control, no sanctions, etc.). Going beyond this standard approach of credibility assessment, this paper argues for taking the issue of institutional complementarity seriously. To assess its credibility, one has to not only examine the design of a deficit/debt limit but also the institutional environment (tax/expenditure policy, capital market, etc.) in which such a constitutional commitment is embedded.

**Keywords** Public debt · Constitutional borrowing limits · Credible commitment · Institutional complementarity

**JEL Classification** E62 · H61 · H62 · H63

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