

Fiscal Sustainability in the German states

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March 14, 2012

Abstract

We examine whether German states pursue sustainable fiscal policies by using panel data techniques. In particular, we investigate whether the Debt-to-GDP-ratio has a unit root and whether the Debt-to-GDP-ratio has had a positive influence on the primary surplus (Bohn model). The results show that the null hypothesis of a unit root in the Debt-to-GDP-ratio cannot be rejected and that the Debt-to-GDP-ratio does not have a robust positive influence on the primary surplus. Fiscal policy in the German states is therefore shown to be unsustainable.

Keywords: fiscal sustainability, German states, panel data

JEL Classification:

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