

# Honorable State?

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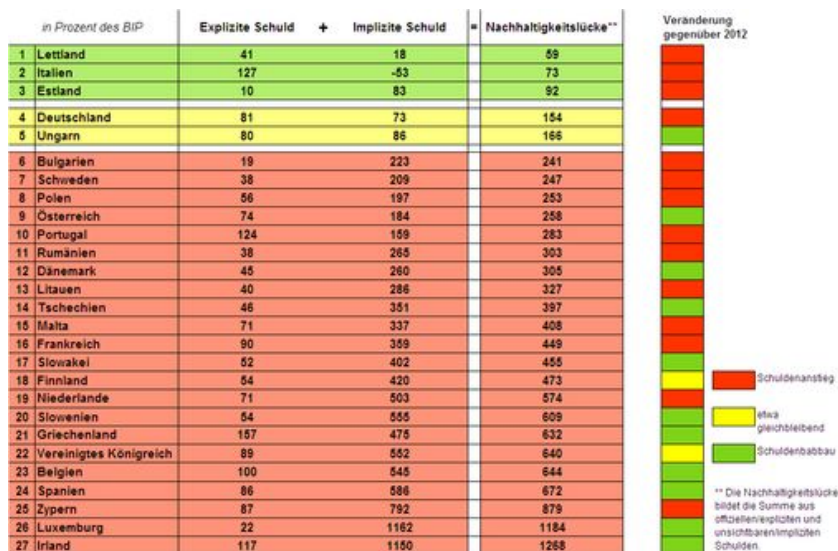
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## Honorable States? EU

# Sustainability Ranking 2013

The new EU Sustainability Ranking 2013, which Stiftung Marktwirtschaft (Foundation Market Economy) presented in Berlin on November 28, 2013, gives an overview on the long-term perspectives of the public budgets of the EU Member States. In almost all countries the sustainability gap (sum of explicit and implicit debt) is still many times higher than economic output. Therefore, the consolidation process and the implementation of structural reforms must remain top priority in the EU and most Member States.

## International Comparison of Public Debt (in % of GDP): Sustainability Ranking – Update 2013



Sources: European Commission, AMECO Database, Eurostat. Calculations: Research Centre for Generational Contracts (Forschungszentrum Generationenverträge)

Honorable States? EU Sustainability Ranking 2013 [English Summary](#)

## Honorable States: Sustainability Ranking – Update 2012

On December 6, 2012, Stiftung Marktwirtschaft (Market Economy Foundation) presented an extended update of the European sustainability ranking with the following results:

# International Comparison of Public Debt (in % of GDP): Sustainability Ranking – Update 2012

|    | in % of GDP     | Implicit Debt | Explicit Debt | Sustainability Gap |
|----|-----------------|---------------|---------------|--------------------|
| 1  | Italy           | -123          | 121           | -2                 |
| 2  | Latvia          | -42           | 43            | 0                  |
| 3  | Estonia         | 75            | 6             | 81                 |
| 4  | Poland          | 74            | 52            | 126                |
| 5  | Germany         | 55            | 81            | 136                |
| 6  | Bulgaria        | 160           | 16            | 176                |
| 7  | Sweden          | 138           | 39            | 177                |
| 8  | Portugal        | 73            | 108           | 181                |
| 9  | Hungary         | 109           | 81            | 190                |
| 10 | Romania         | 234           | 33            | 267                |
| 11 | Lithuania       | 264           | 38            | 303                |
| 12 | Austria         | 242           | 72            | 315                |
| 13 | Malta           | 253           | 71            | 324                |
| 14 | Czech Republic  | 379           | 39            | 418                |
| 15 | France          | 356           | 86            | 442                |
| 16 | Denmark         | 396           | 47            | 442                |
| 17 | Finland         | 420           | 49            | 469                |
| 18 | Slovak Republic | 506           | 43            | 549                |
| 19 | Netherlands     | 499           | 65            | 565                |
| 20 | United Kingdom  | 550           | 88            | 639                |
| 21 | Belgium         | 558           | 98            | 655                |
| 22 | Slovenia        | 620           | 47            | 667                |
| 23 | Cyprus          | 764           | 71            | 835                |
| 24 | Spain           | 735           | 69            | 805                |
| 25 | Greece          | 720           | 171           | 891                |
| 26 | Luxembourg      | 1209          | 18            | 1228               |
| 27 | Ireland         | 1271          | 106           | 1378               |

Sources: European Commission, AMECO Database, Eurostat. Calculations: Forschungszentrum Generationenverträge

Honorable States? The Sustainability of European Public Finances in Times of Crisis

[English Summary](#)

## 2012 Generational Balance Sheet Update: Focus on Demography and Labour Markets

Our new results of the German generational balance sheet demonstrate that the sustainability gap, which serves as an indicator of the true value of public debt, has fallen to 230 percent of the gross domestic product (GDP). In other terms, the total value of public debt today is estimated at approximately €5.7 trillion. Implicit state debt, which, at 147 percent of GDP, comprises the lion's share of total public debt, consists primarily of unfunded social security liabilities. These unfunded liabilities exist because our government has promised its citizens more services in the future – in the form of pensions, health care, and nursing care, among others – but has failed to raise the revenue from taxation or insurance contributions that is necessary to pay for these new services. The rest of the sustainability gap –

83.2% of GDP – consists of explicit state debt.

The positive development is due less to the policy of the federal government and more to the growth in the economy and the concurrent growth in tax and social contribution revenue. In fact, when examining the policies of the government for 2012, the government's role in this decline becomes even clearer: when examined in terms of long-term sustainability, the federal government's tax and social security plan for 2012, which includes tax cuts, long-term care reform, a pension package, and a new home care subsidy, is misguided as it in fact raises the sustainability gap, to 253 percent of GDP.

Honorable State? 2012 Generational Balance Sheet Update: [Argument 117](#)  
Focus on Demography and Labour Markets  
Authors: Bernd Raffelhüschen, Stefan Moog

## A QUESTION:

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Would a businessman be reputable if, when taking a loan from a bank, he hid two thirds of his existing debt?

The state has not even had that much consideration for its citizens. Instead of recognizing state liabilities in their full amount, the state conceals a considerable amount of debt – more than two-and-a-half times the full annual economic output of Germany – and claims, officially, that the national debt lies at “just about” €1.5 billion.

The latest calculations of the long-term public balance sheet, however, reveal that the fiscal policy of the federal government has not been sustainable for many years; it was not even sustainable in the cyclically good years. According to the latest figures, the gap between Germany's long term revenues and liabilities, the latter of which comprises both visible and hidden debts, has climbed and now lies at just under €8 trillion, or approximately 315% of GDP. The social security system in particular is in dire need of reform.

## METHODOLOGY OF THE LONG-TERM BALANCE SHEET

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The long-term “generational” balance sheet was developed at the beginning of the 1990s in the United States of America in order to better analyze long-term fiscal and social policies. With these methods, long-run public income and expenditure, such as retirement payments and tax receipts, are calculated with consideration of demographic development and underlying economic and fiscal conditions. The resulting indicators, such as the sustainability gap, enable a thorough analysis of the sustainability and

generational consequences of current fiscal and social policies. The long-term sustainability gap comprises of explicit debt as well as implicit “hidden” debt. Implicit liabilities describe the future imbalance between receipts and expenditures and thereby reveal the extent to which, under the current law, the state will be indebted. In other words, the sustainability gap shows just how large financial reserves must be in order to maintain current levels of service into the future.

