Why Maastricht Treaty (& German Debt Brake) Nonsense

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Gov's expenditure can be financed by printing money and issuing new bonds

(1) Assume Gov budget constraint

$$G - T + rB = \frac{dB}{dt} + \frac{dM}{dt}$$

G: gov expenditure; *T*: tax; *D*=*G*-*T*=budget deficit; *r*: bond yields; *B*: debts; *M*: printing money (=0 when the country is in the EMU)

(2) The lowercase variables are the uppercases over GDP (*Y*)

$$b = \frac{B}{Y}$$

(3) Calculus

$$\dot{b} = \frac{\dot{B}}{Y} - B\frac{\dot{Y}}{Y^2}$$

(4) (1)/*Y* and then substitute (3) into (1)

$$\dot{b} = (g - t) + (r - x)b$$

(5) Note that *x* is economic growth rate

$$x = \dot{Y}/Y$$

(6) Assume the growth of *b*=0

$$\dot{b} = 0 \text{ or } (r - x)b = t - g$$

(7) (6) can be *g-t=d=(x-r)b*

(6) Maastricht Treaty *d=3%*, *b=60%*, and now *r=3%.* Do you think the value of *x* can sustained for the members of the EMU?