European budgetary rules hurt public investment

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1. The golden financing rule and the 'spirit' of the Maastricht treaty (1992)

The golden financing rule:

- Recurrent public expenditures should be financed by regular revenues (taxes, social security contributions…)

But for public investments borrowing is allowed

→ 3pct. Deficit rule

2. The sovereign debt crisis (from 2010 on) and the budgetary panic in Europe

- Substantial increase in debt levels after the banking crisis (2008-2009)

- The Greek tragedy and the arrival of the troika: European Commission, European Central Bank and the international Monetary Fund

- Austerity moves: sixpack, twopack, fiscal compact and all that

- The rule of a structural balanced budget is inadequate

- Piblic investment first victim of budgetary austerity

→ Stagnation in real economy: growth rate (average per year 2010-2015)
Eurozone 0,25pct.
USA 2,25pct.

3. A case in point: public investment in Belgium

- Public investment in fixed material assets: 1,7pct. of GDP

- Infrastructure (roads, railroad, ports, airports…)

  Rank World Economic Forum

	2008	2016
Belgium	16	23
Netherlands	12	4

4. The European Fund for Strategic Investment (EFSI)

- European guarantee: 12 à 21 billion Euro
  Leverage by private sector x15
  Total target investments: 315 billion Euro

- Monitoring by the European Investment Bank (EIB)

- Enlargement of the Juncker Plan (Fall 2016)

5. Redesigning the budgetary rules

- Return of the golden financing rule
- New accounting rules for public investments
- More flexibility within the existing rules
- New ‘European Fiscal Board’