Fiscal policy and sustainability

Marco BUTI

Director-General
European Commission, DG Economic and Financial Affairs

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Musgrave +: what economic role for governments?

Unsustainability concerns sharpen the trade-offs
High government debt is a drag on growth and recovery

High debt countries more subject to tensions in financial markets

Stabilisation and redistribution tend to go hand in hand

Correlation is positive although weak

\[ y = 15.6 + 98.2x \]
\[ R^2 = 0.23 \]

Source: 2017 Public Finance Report, European Commission
Fiscal prudence helps protect public investment

Debt level and share of govt. investment on total govt. spending, EA post 2010

Public debt as % of GDP, 2009
The "golden rule" does not work in practice

- It creates an illusion: public investment is not self-financed
- It generates calls for exempting other expenditures, thereby weakening the enforcement of the SGP
- Gross vs net investment
- It incentivises creative accounting

BUT EU fiscal rules acknowledge the specificity of public investment:

- Investment clause in the SGP
- Proposal for a European Investment Stabilisation Function