

Public investment policies in Europe

Paris, 6 September 2021

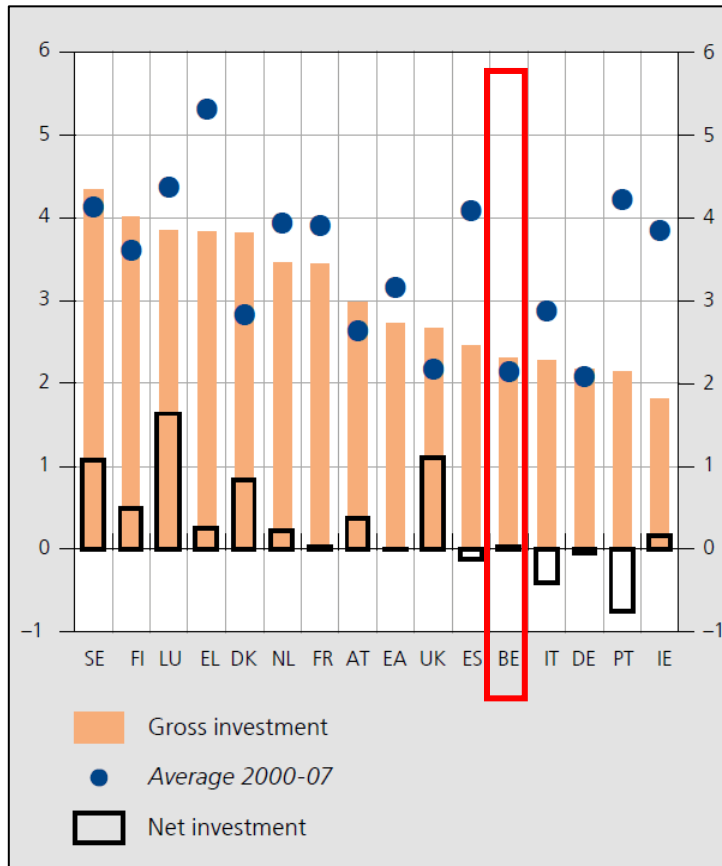
**Promoting public investment in a highly centrifugal federation committed to fiscal orthodoxy: Belgium’s “public finance trilemma”**

Damien PIRON (Assistant Prof. – UCLouvain)

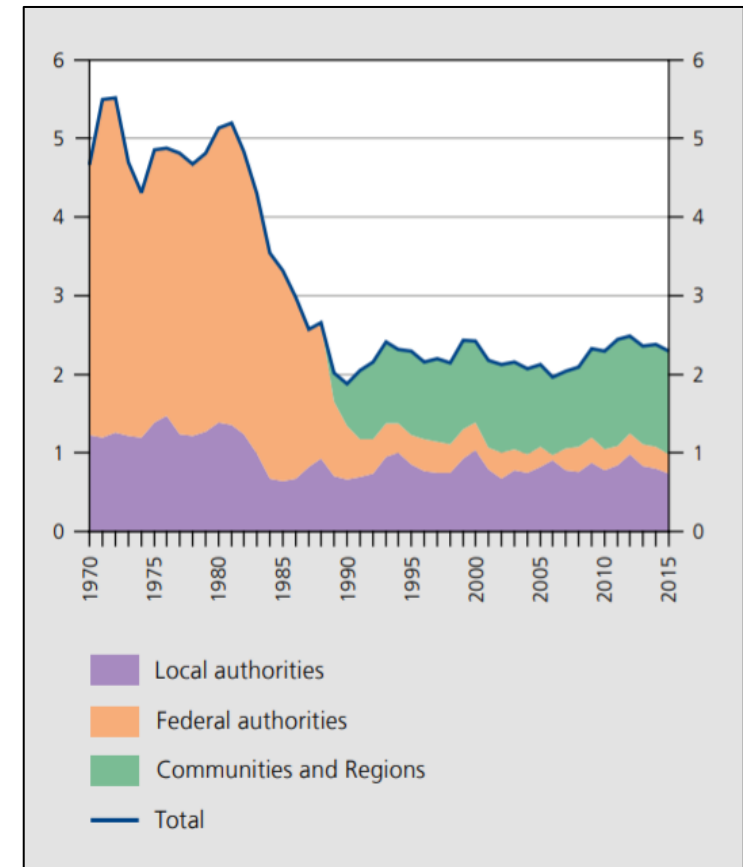
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# Introduction: persistent public underinvestment in Belgium

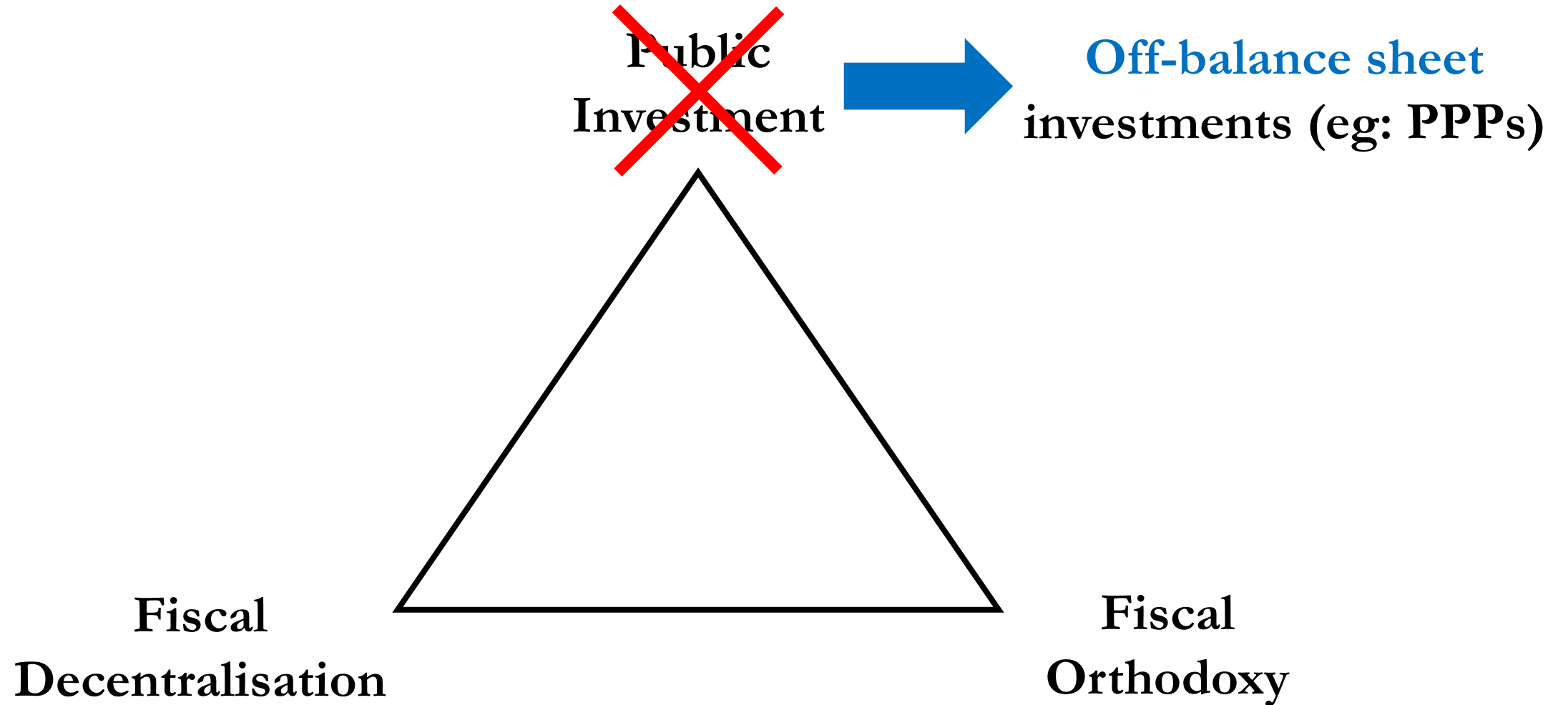
Government investment in selected European countries (in % of GDP, 2015)



Government investment in Belgium by sub-sector (in % of GDP)



# Belgium's Public Finance Trilemma



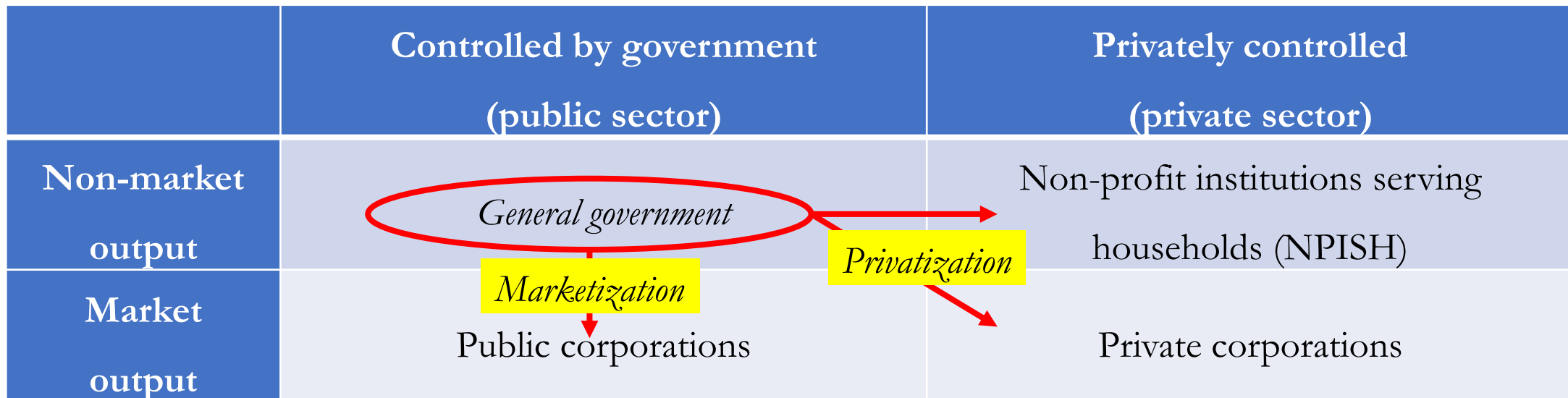
# 1 – Fiscal federalism and public investment policies in Belgium

- **The devolution of investment policies:** a response to the inefficiencies generated by the “**waffle iron policy**” (symmetrical distribution of central government expenses)
- **The Special Financing Law:** a fiscal straightjacket on regional investment policies
  - **Structural cuts** on capital expenditure transferred to the Regions (14.3%!)
  - Participation of federated entities in **public finance consolidation**



# 2 – The impact of European fiscal governance on national investment policies

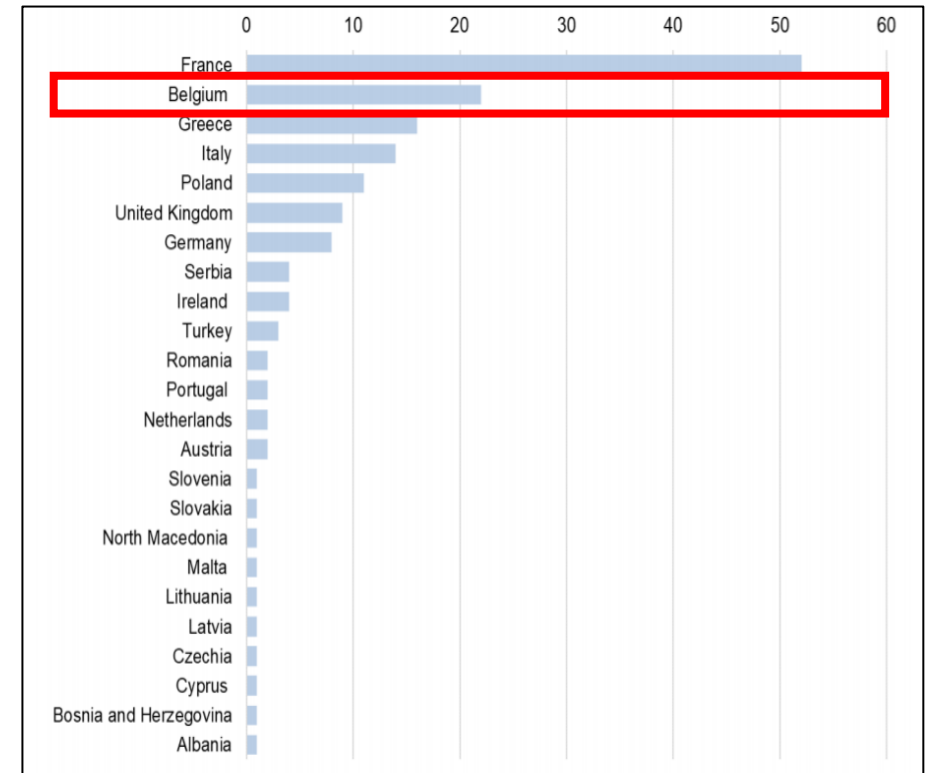
- The deflationary stance of European fiscal indicators
  - **Nominal deficit**: no distinction between current and investment expenses
  - **Gross debt**: no valuation of government financial assets
- Playing at the margins of the “general government” sector



# 3 – PPPs: a neoliberal solution to the “impossible trinity” of Belgian public finance

- How to increase public investment in this context?
- **Two main options:** relaxing fiscal discipline or strengthening inter-federal fiscal coordination
  - Political obstacles...
- To keep investing in compliance with European fiscal rules, but without giving up their fiscal autonomy, component units of the Belgian federation increasingly rely on **‘off-balance sheet’ investment techniques**
  - Example: PPPs

Number of PPP Pipeline Projects by Country (January 2021)



# Conclusion

- In Belgium, the combination of large regional fiscal autonomy and commitment to fiscal orthodoxy acts as a **catalyst for growing marketisation and (quasi-) privatisation** of “public” investments
  - Unprecedented subordination of investment policies to the satisfaction of the financial interests of private investors
- Yet, **European responses to the Covid pandemic** (General escape clause & Recovery plan) could trigger dramatic changes → Are these reforms likely to reinforce Belgium’s centrifugal inclinations or lead to more coordinated public investment policies?

# Main references

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