

## 6 Conclusion

Most parts of the Euro area have seen seven years of deep economic crisis. Public investment which should have stabilized the economies and kept up their long-term growth potential has instead dramatically shrunk in the crisis-ridden countries of the periphery. The EU needs to address these problems. The previous strategy of tightening the fiscal constraints of the SGP has driven many member states into austerity and has disempowered national fiscal policy as a macroeconomic policy instrument. Unfortunately, in the current situation, with depressed aggregate demand, deflationary tendencies and monetary policy at the lower bound, national fiscal policy is the only instrument left that could bring about a sustained recovery. The EU Commission is shying away from this conclusion and tries to evade anything that might change the present institutional framework for fiscal policy.

In contrast, the Golden Rule of public investment proposed in this study would be one important element of the necessary institutional reform. The rule is widely accepted in the traditional public finance literature and would allow financing (net) public investment by government deficits thus promoting intergenerational fairness as well as economic growth. A pragmatic version focusing on net public investment as defined in the national accounts minus military expenditures plus investment grants for the private sector could quickly be implemented. Net public investment should be deducted from the relevant deficit measures of the Stability and Growth Pact and the fiscal compact. This would at once protect public investment from cuts and provide leeway for investment to recover. In order to prevent a conflict between the Golden Rule of public investment and the goal of stabilizing public debt at below 60 per cent of GDP an upper limit of deductible net investment spending of 1 or 1.5 per cent of GDP could be set. Over time it could be technically and statistically refined and potentially include other – more intangible types – of investment like education expenditures.

As political implementation would probably take some time, the Golden Rule would have to be complemented by expansionary fiscal policy to provide the urgently needed boost to the European economy in the short term. This could be done by a short term European Investment Programme similar to the 2008 European Economic Recovery Programme during the Great Recession. Such a programme could also allow for investment needs beyond the narrow national accounts definition to contribute to public investment in a broader sense, e.g. for expenditure related to the currently neglected Europe 2020 goals such as social inclusion.