A European Public Investment Outlook

This outlook provides a focused assessment of the state of public capital in the major European countries and identifies areas where public investment could contribute more to stable and sustainable growth.

The Outlook is structured into two parts: the chapters of Part I respectively explore public investment trends in France, Germany, Italy, Spain and Europe as a whole, and illuminate how the legacy of the 2008 Global Financial Crisis is one of insufficient public investment. Part II investigates some areas into which resources could be channelled to reverse the recent trend and provide European economies with an adequate public capital stock.

The essays in this outlook collectively foster a broad approach to and definition of public investment, that is today more relevant than ever. Offering up a timely and clear case for the elimination of bias against investment in European fiscal rules, this outlook is a welcome contribution to the European debate, aimed both at policy makers and general readers.

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2. Public Investment and Capital in France

Mathieu Plane and Francesco Saraceno

Introduction

Public investment in France has seen contrasting trends in recent decades. While it was rather dynamic until the late 2000s, a real inflection took place at the turn of 2010, when the fiscal stance changed, and a substantial part of the adjustment was achieved by reducing capital expenditure. Indeed, the reduction of public investment has contributed to 30% of fiscal consolidation even though investment only represented 6% of public expenditure. The share of public investment on GDP, that was largely above 4% since the 1960s (Figure 1), has fallen below that level in 2011; it averaged 3.4% of GDP since then, its lowest level since 1952. Despite the commitment of President Emmanuel Macron to put in place a large investment plan on the five-year period of his term, and the will to preserve local governments’ investment by constraining only their current expenditure, the share has not recovered yet. This sustained weakness in general government investment raises the question of the evolution of public capital in France. This is relevant because it provides an historical picture of the assets cumulated over time by the government (and of their composition), the counterpart of its public debt.

How did public capital in France evolve since the late 1970s? What are its main characteristics and how is it measured? Which public institutions hold this capital? How did investment flows and depreciation shape it? What is the net position of public administrations today? This chapter will address these questions by tracing the historical evolution of public assets, both financial or non-financial, and by looking into the components of public capital. We will look at general government figures as well as their components (central government plus local government and social security administrations). We will specifically investigate non-financial assets, especially fixed assets that represent the accumulation of public investment net of its depreciation.

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What is referred to as public capital covers a wide variety of assets, such as land, residential buildings, ports, dams, roads but also intellectual property rights. It is necessary to break down the “wealth of the State” into these different components to understand its dynamics considering, as we will show below, that price (most notably land prices) and volume effects may play a significant role in explaining the evolution of the different components, and of aggregate figures.

The data we use are from the INSEE national accounts, which are public; our analysis covers the period 1978–2018. INSEE reports the consolidated level (General Government, GG) and its components, distinguishing between the central government (CG), local governments (LG), social security administrations (SSA) and other government agencies (OGA).

In section 2.1. we will look at the evolution of government net wealth from the late 1970s to the present day. Consistently with the general aim of this volume, we will then focus, in section 2.2., on the stock of non-financial assets held by the government. Section 2.3. will detail the gross and net (of depreciation) flows of capital for different types of assets, documenting a shift from material to immaterial investment. After this essentially descriptive assessment, we will analyse, on the basis of a multi-sectoral macroeconomic model (Callonnec et al. 2013, 2016), the impact on the growth rate of different macro sectors, of a permanent increase of public investment. Based on this,
we will give an assessment of public capital needs in different sectors of the French economy.

2.1. The Net Wealth of Public Administrations

In 2018, the consolidated public sector had a positive net wealth (Table 1). Total assets represented 148.5% of GDP, of which 89.9% for non-financial assets and 58.6% for financial assets. Financial liabilities totalled 135.7% of GDP. The net worth in 2017 was therefore 12.9% of GDP, around 4,500 euros per capita. (47,650 of debt and more than 52,000 of assets, including 31,600 non-financial assets).

Table 1 Decomposition of General Government Net Wealth

<table>
<thead>
<tr>
<th>As a % of GDP</th>
<th>In euros per head</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1978</td>
</tr>
<tr>
<td>Non-financial assets</td>
<td>60.8</td>
</tr>
<tr>
<td>Financial assets</td>
<td>62.7</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>78.6</td>
</tr>
<tr>
<td>Net worth</td>
<td>49.6</td>
</tr>
</tbody>
</table>

Source of data: INSEE, authors’ calculations.

While still positive, consolidated net wealth is today at an all-time low, a level that is mostly explained by the financial and economic crisis. Indeed, after reaching a record level in 2007 (58.1% of GDP), it has lost 45 points of GDP in the space of eleven years. The reasons for this sharp drop are to be found on the net financial liabilities (debt) side that increased substantially while non-financial assets remained broadly constant (Figure 2).

This net worth is unevenly distributed among different levels of government. Indeed, it is very positive for local administrations (62% of GDP in 2018), very negative for the central government (-63.9% of GDP) and slightly positive for social security administrations and other government agencies (7.7% and 7.4% respectively). Broadly speaking the central government, that runs recurrent public deficits, has accumulated public debt; low-debt local governments hold non-financial assets, be it land, buildings or civil engineering works. With the economic and financial crisis, from 2008 on, the net worth of the central government deteriorated considerably (it lost 44 points of GDP between 2007 and 2018), as public deficits and debt increased. On the other hand, the net worth of local governments remained high and relatively stable over the same period due to a stable value of non-financial assets and of their debt. This follows a decade (1998–2007) in which the value of non-financial assets increased by almost 30 percentage points of GDP, due to the sharp increase in land and real estate prices (mostly held by local governments), while debt remained constant.
2.2. Evolution of Public Non-Financial Assets

In 2018 non-financial assets (NFAs) of the general government represented 61% of total assets and accounted for 90% of GDP. These can be further divided into fixed capital (produced NFAs), which are the result of past public investments, and land (non-produced NFAs).

Fixed assets account for 53% of GDP, mostly civil engineering works and non-residential buildings (43% of GDP). The remaining (10% of GDP) are public housing, machinery and equipment, weapons systems and intellectual property rights. Non-produced NFAs account for 39% of total assets (37% of GDP) most of which (98%, or 36.2% total assets) are constituted of land owned by the general government. Unlike fixed assets, non-produced NFAs do not depreciate, and their evolution depends mainly on land prices.

From the late 1970s to the late 1990s, the value of public NFAs fluctuated, between 60% and 70% of GDP. Then, from 1998 to 2011, it increased by 38 points of GDP, reaching 96% of GDP in 2011. Over the past six years, this value has fallen by 7 points of GDP, and in 2018 its level was close to 2006. Most of the increase (around 90%) in the value of total NFAs can be attributed to the increase in the value of non-produced NFAs, that went from 8% of GDP in 1998 to almost 40% in 2011 (Figure 3). The large increase in valuation of non-produced NFAs is largely explained by the revaluation of built land prices, and not by an increase of volume (investment flows). There are a number of possible explanations for land price increases, which was by no means a
French phenomenon. A scarcity of undeveloped land, either because of insufficient supply or because it is subject to retention, tends to drive up its price (for details, see Levasseur 2013). The retention of land is due to several factors: increased retention in the ascendant phase of the cycle enhanced by the fact that in France there are no statistical databases which produce information on the non-built land (its location and the sale price previously recorded for land of equivalent quality), low cost of keeping undeveloped land, etc. Furthermore, price increases could be traced to the long-term agglomeration effects of economic agents trying to exploit positive externalities (as long as these are not more than compensated by congestion costs). Another structural reason is to be found in land use regulations (especially in urban areas), that empirical research has shown to play a major role in explaining rationing in the real estate and land market.

Besides these long-term trends, contingent factors such as expansionary monetary policies in the early 2000s, and the increase of private debt, probably played a role in explaining land price dynamics and the related increase in the valuation of non-produced NFAs.

![Graph](image-url)

Fig. 3 Decomposition of public non-financial assets as a percentage of GDP

*Source of data:* Insee. Figure created by the authors.
2.2.1. The value of fixed assets remained constant

Fixed capital is given by the past accumulation of realized investments, net of depreciation. Between the end of the 1970s and 2018, the value of fixed assets held by the general government ranged from 47% to 53% of GDP, showing significantly lower volatility than the value of non-produced NFAs. This is because fixed assets experience much smaller price fluctuations than land. Between 1998 and 2018, the value of fixed assets grew by 2.7% of GDP, ten times less than the value increases of non-produced NFAs.

“Non-residential buildings” account for 28% of fixed assets (14% of GDP in 2018). These are buildings that are not intended for residential purposes, such as warehouses and industrial buildings, commercial buildings, performance halls, schools, hospitals, etc. The evolution of their value sees a decrease in the 1980s and 1990s (from 14% of GDP to 11% in 2000), then a steady increase until 2013 (to 16% of GDP). The last few years have seen a contraction, as for most other items, and in 2018 their value stands at 14% of GDP like in the early 1980s but their share in fixed assets is currently higher than before the crisis of 2008. It should be noted that around three quarters of these assets are owned by local governments.

Civil engineering works, other than non-residential buildings, account for more than half (54%) of fixed assets held by the general government. “Other civil engineering works,” in the INSEE accounting classification, corresponds to everything but buildings. This category includes, for example, highways, roads, streets, railways, airfield runways, bridges, tunnels, waterways and water lines, ports, dams and other hydraulic works, communication and transmission of electricity, pipes and cables of urban networks; but also includes maintenance costs of roads, of sewerage systems and the works related to sites’ clearing and preparation. Like non-residential buildings, the vast majority of “other civil engineering works” (76%) are owned by local governments. The evolution over time of this class of assets makes no exception. The stock of “other civil engineering works” in value peaked in 1982, approaching 30% of GDP; this period marks the end of the long catching up phase of the post-Second World War period. Subsequently, its value declined (while remaining relatively high) to fluctuate between 26% and 28% of GDP over the period 1985–2000. At the turn of 2000, the value of the stock of “other civil engineering works” increased steadily to a high point in 2012, at 30% of GDP. Since 2012, its value has declined significantly, to reach 28% of GDP in 2018 and its share in fixed assets currently represent 3 percentage points less than in 2007.

Since 1978 — but also since 2007 — it has been the non-residential buildings, and to a lesser extent the intellectual property rights, which have seen the major increase of their share in fixed assets. By contrast, the share of weapon systems and of civil engineering works has decreased (since 1978 and 2007 respectively).
2. Public Investment and Capital in France

2.3. The Dynamics of Gross Investment

The previous section showed a substantial stability of the public capital stock, whose dynamics for most categories followed the long cycles of economic activity. The only exceptions were non-produced NFAs, whose increase in value was mostly driven by land prices. Nevertheless, stock analysis only gives a partial picture: while non-produced NFAs account for 40% of the value of the total stock of capital, they account for less than 3% of NFA flows (i.e. gross public investment, in the terminology of national accounts). In fact, 97% of these flows are accounted for by fixed assets. And when we turn our attention to flows, valuation effects do not play any role.

As we said above, the flow of fixed assets, i.e. gross investment, has declined sharply since 2011. It has stood between 3.3% and 3.5% of GDP since 2015, its lowest level since the early 1950s. In 2018, 29% of general government gross investment consisted of “non-residential buildings”, 29% of “other civil engineering works”, 27% of “intellectual property rights” (of which 22% are research and development and 5% are software and databases), 7% are “machines and equipment,” 3% are “weapon systems” and 2% is “housing”.

Most of these items had similar dynamics over time, with peaks in the early 1990s, and since then either constant levels or a steady decline (especially since the global
financial crisis). Two items nevertheless warrant further consideration. The first is investment in “intellectual property rights”, of which more than 80% is research and development expenditure. It increased significantly during the 1980s, from 0.7% of GDP in 1980 to 1% in 1990. Over the past thirty years, it averaged 0.9% of GDP, the value it had in 2018. Finally, investment in “other civil engineering works” was high in the 1980s through to the early 1990s, ranging from 1.3% to 1.5% of GDP. From the mid-1990s to 2013, it has swayed between 1.1% and 1.3% of GDP. But, since 2014, it has shrunk leading to a historically low level in 2015–2018 (1% of GDP). Overall, except for intellectual property rights, all components of public investment are at historic lows and it is “civil engineering works” that have experienced the greatest decline.

2.4. Net Flows of Fixed Assets Give Another (and Different) Picture

The earlier description of investment (the fixed asset flow) by asset type captures gross investment. However, the most relevant measure must include capital depreciation. Indeed, considering the net flow of fixed assets (net investment) gives information on whether the stock of capital is expanding or shrinking, abstracting from the effects of revaluation of the existing stock. Thus, if gross investment is larger (smaller) than the depreciation of capital (consumption of fixed capital, CCF, in national accounts’ nomenclature), then net investment is positive (negative) and the stock of capital increases (decreases). Unlike fixed assets, non-produced NFAs (land) and inventories may experience changes in value but are not subject to consumption of fixed capital. CCF only applies to fixed assets.

Historically, net flows of non-produced NFAs and inventories are relatively stable, with the sum of the two hovering between -0.1 and 0.2 % of GDP over the period 1979–2018. Changes in the net flow of non-financial assets are the result of the net flow of fixed assets. Over the period from the late 1970s to the first half of the 1990s, general government net investment was strong, averaging more than 1% of GDP per year (Figure 5). It even experienced a strong boom over the period 1987–1992, averaging above 1.4% of GDP per year. From 1993 to 1998, general government’s net investment declined sharply, reaching 0.5% of GDP in 1998, a decrease of 1% of GDP in the space of six years. Like in other European countries, this is mostly due to the effort to meet the Maastricht criteria in the run up to the Euro: the cyclically adjusted deficit for France decreased from 4.6% of GDP in 1993 to 1.8% in 1998. Past this phase, net investment recovered, then fluctuated between 0.7 and 0.9 % of GDP over the 2000–2010 period, without ever returning to the level observed during the 1980s and the first half of the 1990s. But it is mainly from 2011, following the global financial crisis that net investment experiences a break. Between 2010 and 2015, it dropped from 0.7% of GDP to zero, and has since remained at a very low
level (between 0 and 0.1% of GDP). It is the lowest level since the late 1970s when the wealth accounts were introduced.

Thus, since 2015, France has spent about 0.8 percentage points of GDP (about 19 billion in constant 2018 euros) less on net investment than it did during the period 2000–2010, and 1.5 points (approximately 35 billion in constant 2018 euros) less than during the period 1990–1992.

Looking at the components, the main determinants of the net investment dynamics described above are “other civil engineering works” and, to a lesser extent, “non-residential buildings”. Net investment in “non-residential buildings” has gone through various cycles since the late 1970s; over the past decade has declined sharply (like most other government expenditures) and has reached historically low levels: since 2015 it has averaged -0.1% of GDP, meaning that since 2015 the stock of “non-residential buildings” decreased. Overall, “other civil engineering works” has been the main determinant of fluctuations in the net flow of fixed assets. For these investments we can distinguish three periods: the first — from the late 1970s to the first half of the 1990s — is characterized by a high level of net investment, close to or above 0.6% of GDP for almost every year and with peaks in 1991–1992 (0.8% of GDP). The second period — from 1995 to 2008 — is characterized by an intermediate level ranging from 0.4% to 0.5% of GDP per year. Finally, from 2010, net investment in “other civil engineering works” has constantly decreased, reaching 0.1% of GDP since 2014.
If we look at the evolution of net investment by level of government, we can learn four lessons. The first is that the net investment in “other civil engineering works” of Other Governments Agencies (OGA) is low and relatively stable over the period 1979–2015. Secondly, while the central government contributed positively, albeit weakly, to net investment, during the period ranging from 1987 to 1992, it gradually reduced its engagement. From 1995 to 2004, the investments made by the central government barely offset the depreciation of existing capital and, since 2005, the central government net investment has moved into negative territory, with the exception of 2010 (when, as a part of the stimulus plan following the 2008 Global Financial Crisis, significant investments in weapons systems were made). Thus, since 2005, the stock of fixed capital owned by the central government has decreased. It is in fact very clear, and this is the third remark, that local governments have historically been the main contributors to net government investment. However, since 2007 — on the one hand, with the Global Financial Crisis that reduced own resources levied by local governments, and, on the other hand, with the reduction of endowments to local governments that followed fiscal consolidation — net investment by local governments has collapsed from 0.8% of GDP in 2007 to 0% in 2016. In 2017 and 2018, it recovered slightly respectively to 0.1% and 0.2% of GDP, a level that barely offsets the destruction of capital by the central government and by social security administrations. Finally, social security administrations (SSA), that historically are not a major investor, but which posted a positive net investment over the period 1978–2014 (0.1% of GDP on average) have been destroying fixed capital for the past four years, with negative net investment for the first time in four decades.

The picture that emerges from the analysis of stocks and flows is rather consistent and gives two main messages: the first is that public investment and the stock of capital have been largely affected by the macroeconomic cycle. In the two significant phases of consolidation, the run-up to the euro in the 1990s and the aftermath of the sovereign debt crisis, investment was strongly reduced. Especially in the latter case, net investment turned negative of zero for all levels of government, thus reducing the stock of capital that is today at an all-time low. The second message, that emerges in particular from the analysis of stocks, is that in spite of these trends in investment, the capital stock in France is still significant (and larger than in other countries, as the other chapters of the Outlook show). One might ask then if the effort of consolidation, and the disproportionate burden that it has laid on public investment, at least led to more sustainable public finances.

2.4.1. Since 2009, debt has not been used to finance an accumulation of assets

If we compare the evolution over the last twenty years of non-financial assets net flows in relation to the primary net financial flow (financial assets — financial
liabilities — interest expenses) which we consider here as a proxy of the net worth, two sub-periods emerge clearly (Figure 6). The first, which runs from 1996 to 2008, can be seen as a period in which the additional public net financial debt (excluding interest expense) was more than offset by the net accumulation of non-financial assets, leading to a positive net value on this period, which means that the general government stock of wealth has increased in value over this period, even abstracting from price effects. The second period, which runs from 2009 to 2018, describes a new pattern in which the net debt increase is no longer offset by an increase in public non-financial capital, generating a sharp deterioration in government net worth. The economic and financial crisis led to a sharp increase in public debt. In 2011, France embarked on a process of fiscal consolidation: while on one side it has partly reduced new financial commitments, on the other side it has been more than offset by a reduction in the net accumulation of non-financial assets. This is further proof of the fact that the burden of fiscal consolidation was disproportionately laid on the shoulders of public investment. The sharp reduction in net worth therefore casts doubts on the effectiveness of fiscal consolidation in strengthening the public finances outlook for France.

![Figure 6 Net flow of non-financial assets and primary net financial flows as a percentage of GDP](source)

*Source of data: Insee. Figure created by the authors.*
2.5. Assessing the Impact of an Investment Push in France

2.5.1. A quantification of investment needs for France

According to a report of the French entrepreneurial association MEDEF (2015), which, as of today, represents the most comprehensive attempt to assess the French public capital gap, the network infrastructure needs for France would be €50 bn per year for five years, half of which would be financed by the general government, the rest being shared between public and private companies (Table 2).

Transportation is an important part of the network infrastructure, and its needs are estimated as €28 bn per year, almost two thirds of which are funded by the general government. More than half of that (€15 bn) would be absorbed by the extensive road network. The maintenance of the rail network and the construction of a high-speed line would represent €7 bn. The rest corresponds to infrastructures related to other public transportation: airports, ports and fluvial works.

Table 2  Network infrastructure needs per year for France for five years

<table>
<thead>
<tr>
<th>General government: 25.1</th>
<th>Public companies: 13.8</th>
<th>Private companies: 11.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transports: 17.7</td>
<td>Transports: 8.1</td>
<td>Transports: 2.0</td>
</tr>
<tr>
<td>Water: 4.0</td>
<td>Energy: 5.7</td>
<td>Water: 5.0</td>
</tr>
<tr>
<td>Energy: 2.3</td>
<td></td>
<td>Digital: 2.0</td>
</tr>
<tr>
<td>Digital: 1.0</td>
<td></td>
<td>Gas: 2.2</td>
</tr>
<tr>
<td>Electric charging stations: 0.1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: values in euro bn. Source of data: MEDEF (2015).

Power distribution networks are also high on the agenda, representing €8 bn, with funding from the public electric company (ERDF) and from the general government. These figures would take into account the introduction of Linky smart meters and the adaptation of the network-connected objects and new technologies.

A special effort should be made for water, estimated to cost €9 bn each year (funded in equal parts by the general government and private companies) according to the association “Canalisateurs de France”. The maintenance of pipelines is particularly urgent: in France, more than 20% of the potable water introduced into the network is lost, causing an important economic cost. In total, notes the MEDEF, costs (economic, among others) of non-action could exceed those of investment.

Finally, the coverage of the entire French territory with ultra-high-speed internet would require €3 bn a year; in this case, two thirds of funding would have to come from private companies and one third from the general government.

The report numbers are most probably underestimated, as stated by the authors themselves, to the extent that they do not integrate the totality of the investments necessary to carry out the ecological transition or prevent natural or climatic hazards
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(rising waters, storms, floods etc.). Investment needs for the digital transition are also most probably underestimated. Thus, these figures are to be seen as a lower bound.

2.5.2. The macroeconomic impact of an investment shock

Based on the OFCE’s Three-Me macro-sector model (OFCE 2016), we simulated a permanent increase of 1 point of GDP (approximately €23 bn) in public investment. This amount roughly corresponds to the infrastructure investment needs to be funded out of the general government, that have been put forward in the MEDEF report. Three-ME (Multi-sector Macroeconomic Model for the Evaluation of Environmental and Energy policy) is a macroeconomic model. It has been built on a calibration of the French economy. Its main purpose is to evaluate the medium- and long-term impact of public choices on the economy at the macroeconomic and sectoral levels. Three-Me exhibits the main features of neo-Keynesian models: a slow adjustment of effective quantities and prices to their notional level; an endogenous money supply; a Taylor rule and a Phillips curve. Compared to standard multi-sector CGEs, this has the advantage to allow for the existence of suboptimal equilibria, characterized by the presence of involuntary unemployment. Furthermore, production and consumption structures are represented with a generalized CES function which allows for the elasticity of substitution to differ between each couple of inputs or goods.

In the medium term, i.e. over a five-year horizon, an increase in public investment of 1% of GDP would generate a gain of 1.2% of GDP (a value of the multiplier that is in the same ball park as the consensus in the literature, see Gechert’s 2015 meta-analysis) and would create or safeguard 290,000 jobs (Table 3); this would reduce the unemployment rate in France by 1 point.

<table>
<thead>
<tr>
<th></th>
<th>1 year</th>
<th>2 years</th>
<th>3 years</th>
<th>4 years</th>
<th>5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Value Added</td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Employment (in ‘000s)</td>
<td>120.5</td>
<td>213.7</td>
<td>269.4</td>
<td>290.8</td>
<td>286.5</td>
</tr>
</tbody>
</table>

Source of data: Modèle Three-Me, OFCE.

Quite logically, the first sector to benefit from an increase in public investment would be construction, with 46% of the jobs created (Table 4). The increase in activity in that sector would also have a crowding-in effect on all other sectors that are experiencing an increase in their added value and job creation. Note that these effects are particularly pronounced in sectors with low import content and little chances of delocalization (construction and services).
Table 4 Sectoral impact of a 1% of GDP increase in public investment

<table>
<thead>
<tr>
<th>Sector</th>
<th>Domestic employment (in full-time equivalents)</th>
<th>Added value (in %, volume)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 year</td>
<td>5 years</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>+ 760</td>
<td>+ 1 010</td>
</tr>
<tr>
<td>Manufacture of food products, beverages and</td>
<td>+ 530</td>
<td>+ 2 480</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>+ 12 970</td>
<td>+21 480</td>
</tr>
<tr>
<td>Construction</td>
<td>+ 63 500</td>
<td>+132 180</td>
</tr>
<tr>
<td>Transport</td>
<td>+ 2 000</td>
<td>+ 1 960</td>
</tr>
<tr>
<td>Mainly market services</td>
<td>+ 40 430</td>
<td>+ 106 050</td>
</tr>
</tbody>
</table>

Source of data: Modèle Three-Me, OFCE.

2.6 Conclusion

This chapter showed that France did not escape the recent trend of most European countries, towards a drastic downsizing of its public capital stock. In spite of the rhetoric of the time, national accounts data show that the 2008 Global Financial Crisis was not countered with a public investment push: the sharp increase of debt between 2007 and 2017 did not correspond to an accumulation of public capital. On the contrary, investment paid the heaviest toll in the subsequent consolidation phase, when both expenditure reduction by the central government, and cuts in transfers to local administrations (the largest owner of non-financial assets) resulted in a significant loss of public capital. Thus, in the space of a decade, the French general government saw its net investment drop to negative levels, and its net worth decrease by 50 points of GDP, to an all-time low in 2018. An even greater source of concern is that the previous increase of the net worth, in the years 2000s, is mostly attributed to a price effect of non-produced non-financial assets (land and real estate).

Investment needs in network infrastructure are important (transport, energy, water, digital etc.) and public investment deficiencies of course have important macroeconomic consequences both in the short and in the long run. We highlighted the results from OFCE (2016) that state how a 1% public investment push would have important growth effects (with a multiplier above 1) in the short and medium run. Yet, it is in the long run that the multiplier associated with public investment is larger than the overall expenditure multiplier. Stabilizing the flow of investment is crucial to
maintain a public capital stock that is a necessary complement to private investment (Creel et al. 2015).

The European institutional setting has played a role in the widespread reduction of investment expenditure. The exclusive focus on structural deficit built into European rules has introduced a strong bias against capital spending, since investment is easier to cut than current expenditure. We documented how, already in the run up to the introduction of the euro, in the 1990s, the drop of structural government deficit in France went through a drastic cut of net investment. The same happened in the past decade. The bias against public investment leads to a chronic deficiency of public capital, barely compensated by government action in good times.

Thus, France makes no exception to the general trend documented in this Report, even if in levels its capital stock remains relatively high with respect to its partners. This leads to an obvious conclusion: the introduction of a Golden Rule excluding public investment from the deficit limits, similar to the one implemented in the UK by Chancellor of the Exchequer Gordon Brown in the 1990s (for details, see Creel et al., 2009), would certainly help fill the investment gap. The new rule would require countries to balance their current budget, while financing public capital accumulation with debt. Investment expenditure, in other words, would be excluded from deficit calculation, a principle that timidly emerges also in the current Commission practices. Such a rule would stabilize the ratio of debt to GDP, it would focus efforts of public consolidation on less productive items of public spending, and would ensure intergenerational equity (future generations would be called to partially finance the stock of public capital bequeathed to them). Last, but not least, especially in the current situation, putting in place such a rule would not require treaty changes, and could even be an important piece of a renewed European industrial policy (Saraceno 2017, Ducoudré et al. 2019).

The current environment of low interest rates, that is bound to persist into the medium term (Summers 2014) is an additional reason to try to fill the public investment gap that was progressively dug in the past decades. In a recent issue of the World Economic Outlook, the International Monetary Fund (IMF 2014) went as far as defining a public investment boost, in the current environment of scarce public capital and low interest rates, as self-financing (a ‘free lunch’).

Furthermore, the preceding pages show the importance of properly measuring capital. Thus, it seems increasingly crucial to be able to distinguish, within the balance sheet, between the capital account and the operating account (in which it seems sensible to add a structural/cyclical division), to understand the past dynamics of debt and its use. We are pursuing this work.
References


