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PRESS RELEASE

Is government spending the key to successful consolidation?

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The financial crisis that erupted during 2007 and intensified in 2008, and the ensuing economic recession, caused a marked deterioration in the public finances of most of the advanced economies. That resulted in a sharp increase in the fiscal deficit and public debt in those countries, including Belgium. Since then, almost all countries have made a considerable effort to achieve fiscal consolidation in order to end the unsustainable developments. However, restoring sustainable public finances will entail additional efforts in the years ahead, both in Belgium and in most other euro area countries.

Although fiscal consolidation is generally detrimental to economic growth in the short term, in the long term it benefits economic activity. Fiscal consolidation based on expenditure cuts has a more favourable impact on economic activity in the long term than consolidation based on an increase in public revenues, so long as the cuts do not concern the most productive expenditure such as investment. However, if the consolidation measures remove uncertainty with regards to the sustainability of public finances, thus boosting confidence, then the short-term impact on economic activity may be limited.

The consolidation of public finances in Belgium must be based first on inhibiting the growth of primary expenditure. Since the start of the millennium, that expenditure has in fact risen sharply as a ratio of GDP. It is also higher than in most other euro area countries, particularly in regard to social benefits, public sector pay, and subsidies. The moderation of the expenditure growth seen recently – resulting from the efforts made by the federal government, the Communities and Regions, and the local authorities – must therefore be reinforced to enable Belgium to meet its European commitments regarding the consolidation of its public finances. In view of the scale of the effort, improving revenue collection is probably also unavoidable. Fiscal scope should be found too in order to reduce the already particularly high levies on labour incomes.

Controlling public expenditure by improving the quality and efficiency of public intervention at all levels of power is therefore an important task. In addition, the contribution that the various types of expenditure make towards an increase in growth potential, sustainable development of the economy and the attenuation of social inequalities may influence the choices made. From that point of view, expenditure intended to encourage participation in the labour market is very effective. Not only does work support the economy, it is also the best guarantee against poverty and social exclusion. Expenditure on investment and research and development, where Belgium does not perform well by international standards, must be protected and even stimulated as far as possible, in view of its beneficial impact on growth potential.

Finally, these efforts need to be supplemented by pension system reforms, further extending the average length of working life. In view of the time that it takes for these reforms to have an effect, it is important to define and adopt them as soon as possible. Moreover, measures must also be taken to maintain control over health care expenditure. That is the only way to ensure that the social protection system remains adequate and affordable.