2012-14

PUBLIC INVESTMENT:
a priority, despite the difficulties

République Française
Liberté - Égalité - Fraternité
Conseil économique social et environnemental

In a hectic world, the State is required to intervene in the realisation and direction of investment. The state of the public finances nevertheless means that, to be justified, it must show positive externalities or prepare for the future. It must serve a societal undertaking.

In France, public investment stands at a high level. Is it sustainable over the coming years, and under what conditions?

THE FINDING

The share of public investment in GDP, as per GFCG (Gross Fixed Capital Formation), has been stable for thirty years, slightly above 3%. The State has maintained the level of its investment, and local authorities have increased theirs. By function, housing has grown the most, while transport has seen a fall.

PPP (Public-Private Partnerships) represent only a low proportion (31 billion Euros over 8 years and 7% of the total).

In comparison, public debt reached 86% of GDP in 2011 (cf. opinion of the ESEC Debt: a bridge between past and future; June 2012). This is not sustainable. While France has reached record levels of public spending, their reduction has a general impact on levels of investment. For the local sector, two major risks can be added to this: difficulties in accessing credit, linked to the establishment of the so-called Basel III rules and the strengthening of financial dependency vis-à-vis the State.

IMPORTANT REQUIREMENTS YET FINANCIALLY DIFFICULT TO SUSTAIN

LThe State has to meet new challenges without sacrificing the preservation of the status quo. Needs, of which there are many, must be analysed from the viewpoint of sustainable development, avoiding any waste.

For local authorities, considerable investment is necessary: quantitative and qualitative housing needs, needs related to mobility and networks in general, energy transitions and expectations linked to sustainable development and supporting the economic vitality of the regions.

Nevertheless, the scale of needs masks certain disparities. A fiscal equalization between the regions is thus necessary.

The challenges of a globalised society invite us to review the investments necessary to improve the country's adaptation, especially if we take a broader view of the concept of productive investment to include, for example, R&D or education expenses. To rationalise the decision, it is necessary to improve the understanding of needs, define evaluation criteria, improve economic calculation tools and assess spatial inequalities.

Despite decentralisation, and in order to maintain overall consistency, the State is required to play a crucial role as a direct participant, partner or oversight authority, in particular via the application of standards.

For local authorities, the current position is healthy overall, but will deteriorate in the future. A scissor effect can thus be envisaged: increased investment, and reduced propensity to save. Debt levels should therefore increase, and debt servicing would increase from 40 to 45% of savings today to 60% in 2020. The decline in savings is due to two changes:

- an increase in operating costs (3.6% a year) due, above all to increased interest and operating costs for the investments made,
- a limited rise in income (3.3% a year), due to local taxation reforms.

So, how can the investment of local authorities be preserved while safeguarding their solvency? The decline will be the most marked for the regions; the departments, also affected, may reduce their aid to the communes. Hence credit supply shall play a crucial role.

For the State, it is necessary to consider the cost of non investment which, over time, may be significant. The use of PPPs appear to offer short term room for manoeuvre, but the long term outlook is debatable, and an appraisal of it is necessary.

Didier Ridoret
Contractor in Building Joinery
President of the *Fédération Française du Bâtiment* (FFB) – The French Building Federation

His role at the ESEC:
Member of the business group
Member of the section for Economy and Finance

Rapporteur Contact:

Phone: +33(0)1.40.69.51.39

RATIONALISING THE ORGANISATION OF TERRITORIAL AUTHORITIES AND THEIR COMPETENCES

Since the 90s, different governments have undertaken a slow but in depth process of reforms which aims to:

- develop step by step inter-communality;
- progressively merge departments and regions in favour of the second.

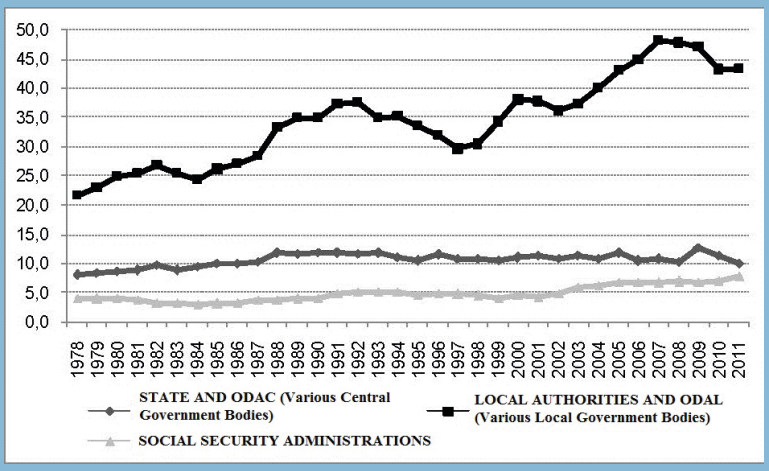
The OECD also considers that it needs to apply order to the organisation of public actions at a local level, by eliminating inefficiencies and overlaps. This could involve increased decentralisation, by reducing devolved government services. Inter-communality should be strengthened, supported by the democratisation of this decision making level via the election, by direct universal suffrage, of the executive body.

Failing this the ESEC suggests, as a minimim, strengthening mechanisms for financial solidarity between regions, so that equalization can be effective.

IMPROVING ANNUAL SCHEDULING

Efforts to improve the knowledge of State assets must be expanded, via real prioritization in terms of investment. Long term commitments must also enable the carrying out of maintenance work, without pushing back necessary future plans. Better governance of projects and a clarification of financing plans appear to be prerequisites to properly meeting needs.

Large scale public investment (in billion Euros, 2010)



In matters of public investment, the State must also guide the methods of other public decision makers in order to guarantee consistency. For this, establishing evaluation criteria and standards is an effective method which respects the decentralised nature of the Republic. Classic performance indicators are unsuitable. It is appropriate to integrate, in particular, elements of social utility.

The use of existing assets should be improved. A true policy for management of real estate assets and infrastructures is required. Preliminary studies should better specify the needs to be met. Thus, a long term investment plan, meeting sustainable development objectives, could be methodically defined.

IMPROVING ACCESS TO FINANCING, WITH SUITABLE MATURITIES

Firstly it is appropriate to preserve, consolidate or restore existing tools (AFITF *l'Agence de financement des infrastructures de transport de France* - The Financing Agecny for Transport Infrasturctures in France, ANRU *L'agence nationale pour la rénovation urbaine* – The National Agency for Urban Regenetation etc.).

Loans to local authorities risk being insufficient. Simple, certain and long term formulae should be found, for example via the joint CDC (*Caisse des Dépôts et Consignations*) -Banque postale project, if this sees the light of day.

Beyond this, four structural approaches are to be favoured:

- The first is the creation of a public bank dedicated to the local authorities so that they have access to suitable loans;
- The second involves the remobilisation of the banks, meaning that the conditions for this must be met;
- The third implies an « armarked» collection of savings, in the form of ready money or otherwise, from the public;
- The fourth relies on market financing via bond issues shared by several local authorities. This implies coordinated action by banks, insurance companies and institutional investors. However, this solution can be nothing more than a panacea, and may present risks.