

The positive effects of public investment on economic growth

2019 SIGNALS

NATIONAL CONFERENCE ON SUSTAINABLE DEVELOPMENT

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The Global Competitiveness Report 2018

Klaus Schwab, World Economic Forum

Economic Growth and Public Spending: Reciprocal Benefits

“...[economic] growth broadens a country’s tax base, generating resources that the government can spend on public services, such as security, infrastructure, health, education and income redistribution—expenditures that can, over time, improve economic prospects.”

(The Global Competitiveness Report 2018, page 15)

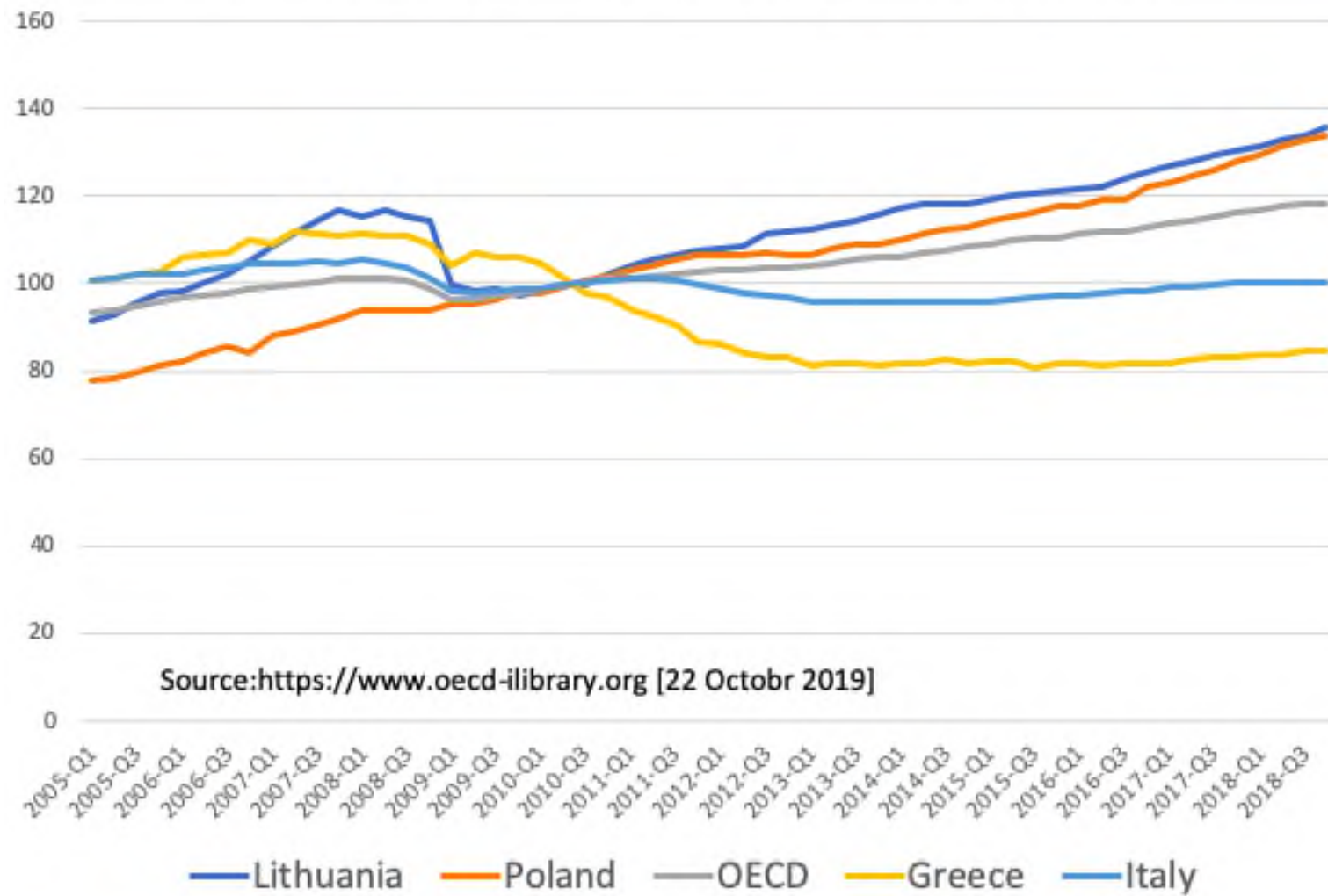


Key Questions

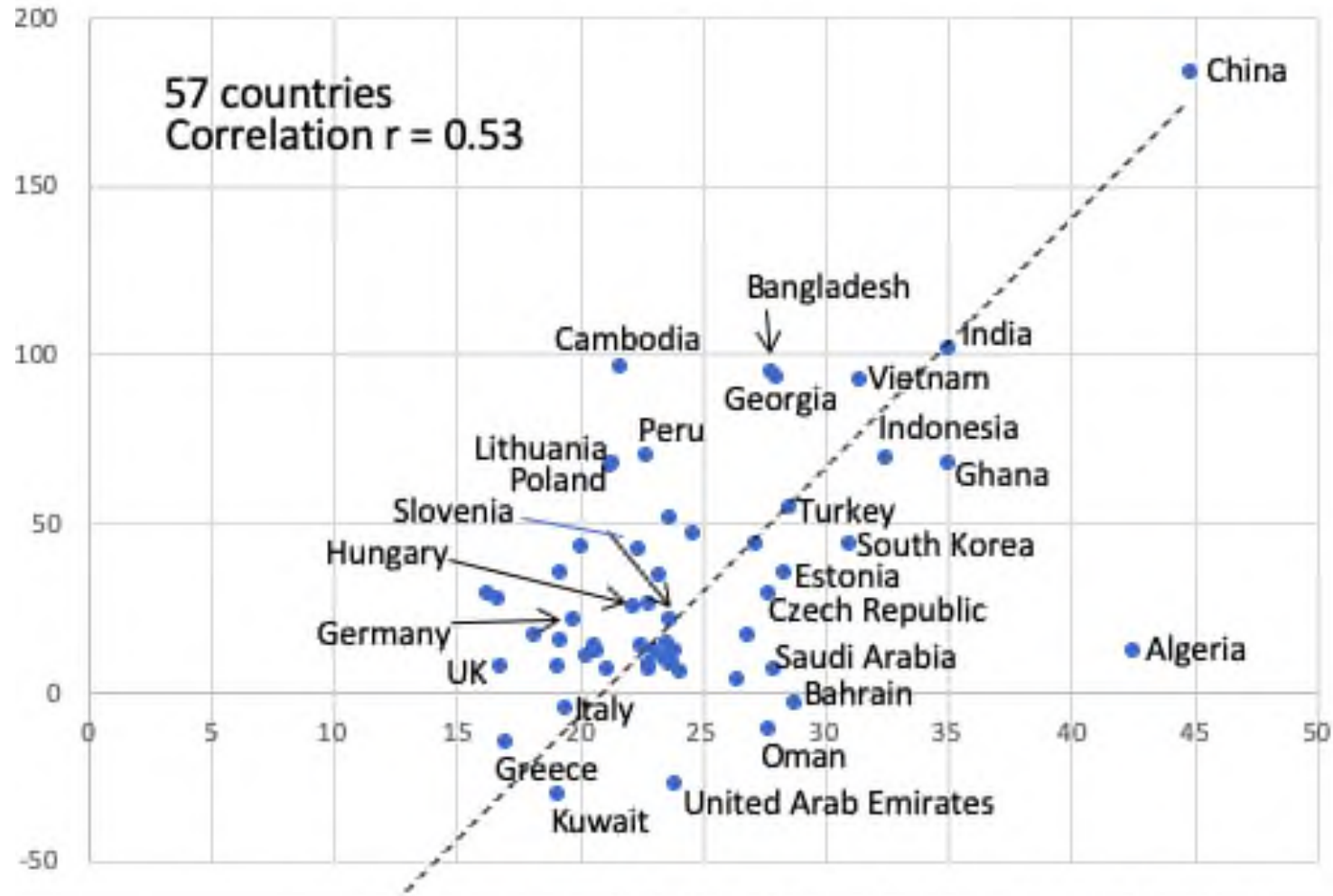
Key questions about public investment:

- Does it boost economic growth?
- Priorities for public investment?
- Government's arrangements for economic governance – what factors might be important for using public investment to deliver growth?

Real GDP: Quarterly GDP, Volume Index, Q1 2005 - Q4 2018



Economic Growth and Total Investment



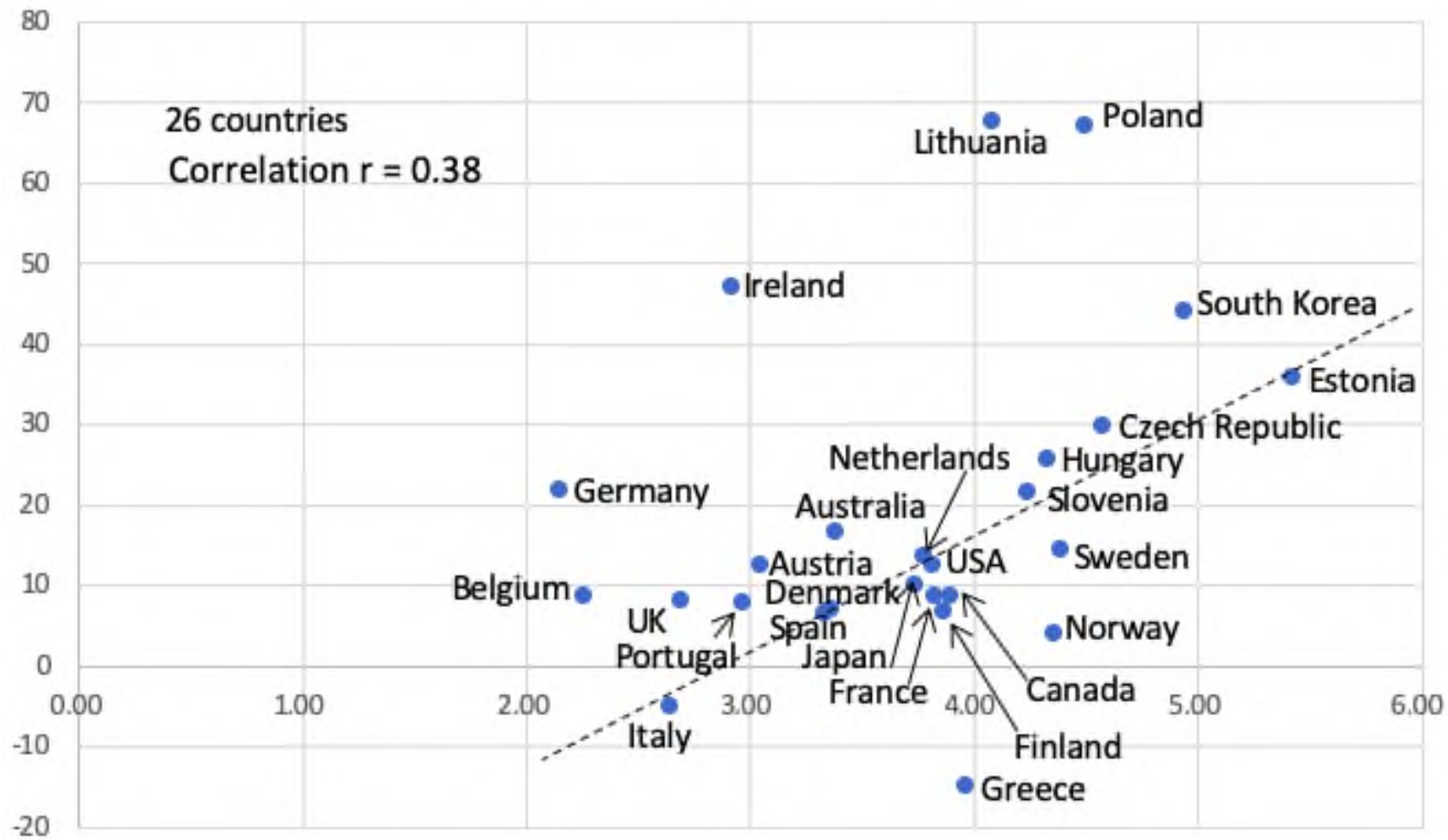
Public Investment (% of GDP), 2005- 18, annual average	Investment by corporate sector, % of gross fixed capital formation, 2005- 17, annual average	Net inflow of FDI (% of GDP), 2005-18, annual average	Economic Growth: Change in GDP per capita (%), 2005 to 2018	
			Below average growth	Above average growth
Above average	Above average	Above average		Estonia, Hungary
		Below average	Japan, Sweden	Czech Republic, Lithuania, Slovenia, South Korea
	Below average	Above average	Netherlands	
		Below average	Canada, Finland, France, Greece, Norway, & USA	Poland
Below average	Above average	Above average	Belgium	Ireland
		Below average	Austria, Denmark, Portugal, Spain, & UK	Germany
	Below average	Above average		
		Below average	Australia, Italy	

Note: The sample consists of 26 countries and the averages in this table are sample averages.

Sources: OECD, World Bank

		Economic growth: Change in GDP per capita, 2005-2018, Percentage change		
		<i>0-9.9%</i>	<i>10-19.9%</i>	<i>20% or more</i>
Public investment (% of GDP), 2005-18, annual average	<i>4% or more</i>	Norway	Sweden	Czech Republic Estonia Hungary South Korea Lithuania Poland Slovenia
	<i>3.5% to 3.99%</i>	Canada Finland France Greece	Japan Netherlands USA	
	<i>Up to 3.49%</i>	Belgium Denmark Italy Portugal Spain UK	Australia Austria	Germany Ireland

Public investment & Growth



Change in
GDP per capita
(%)
2005 to 2018

Public investment as % GDP, 2005-2018, annual average

Choices for Government

1. National economic model can be conceptualized partly on basis of its configuration of public investment, private sector corporate investment and foreign direct investment.
2. In practice, countries appear to have different models:
 - ❖ Focus on educational investment by government – e.g. Czech Republic, Lithuania, Estonia, and Finland.
 - ❖ Focus on infrastructure investment by government – Note: in Europe government infrastructure investment fell as a percentage of total government spending after 2008 (median was about 2.5% in 2017) & Hungary achieved fast economic growth despite neglecting infrastructure investment before 2018
 - ❖ Focus on support for private sector R & D - e.g. South Korea (Note: such support negligible in Lithuania and Ireland)
 - ❖ Focus on creating government policy and investing in infrastructure for inflows of FDI – e.g. Ireland
3. Recent evidence consistent with proposition that public investment is an important positive factor in economic growth.
4. Governance factors? (1) public sector leaders that prioritize development and economic growth; (2) good public administration capabilities (especially those needed for experimental and agile government); (3) public confidence in national government; and (4) business leaders perceiving government has long-term strategic vision(s) for the country.