Ann Pettifor: Public investment increases employment, tax revenues and pays the bill

As Ann Pettifor's message was clear: society can no longer afford investments that do not create employment income. That is because in the end, more jobs create more tax revenue, which repays the public investment and creates prosperity. This means that tax revenues are not initially needed to kickstart financing the green transition, but in fact they can grow from investing in the green transition now. Fiscal rules that are too strict hamper the economy, increase unemployment and contribute to the rise of right-wing parties in Europe. Instead, relaxing fiscal rules now can enable governments to borrow for crucial investments to fight the(climate) crisis, and to create a society that benefits everyone, including future generations.

Zsolt Darvas: How to increase green public investment when fiscal consolidation is needed?

Zsolt Darvas emphasized the dilemma that, on the one hand, the EU's rules call for fiscal consolidation (reducing deficits in government spending) even in times of crisis. On the other hand, more public spending is urgently needed to fight the climate crisis. He presented three options to solve this conflict: First, relaxing the EU fiscal rules (e.g. relax 3 % rule of primal deficit and 60 % rule of debt relative to GDP). However, he added that this is hard to realize because a consensus of every member state is needed to change the European Treaty, which is politically not feasible. The second option is installing a centralized EU-fund for green investment via EU borrowing. And third, to apply a 'Green Golden Rule' exempting green public investment from the EU fiscal rules. He clearly favors the third option.

Philippa Sigl-Glöckner: Changing the second layer of legislation

Philippa Sigl-Glöckner agreed that significant investments are needed, however, she also acknowledged that under current EU legislation EU countries have not much room to maneuver because of already high debt levels. Thus, she proposed three updates to EU fiscal policy rules, which do not require a treaty change but a change of the second layer of legislation and underlying calculation methods. First, excluding interest payments from the 3 % primary deficit rule. Second, update the underlying calculations of what EU country economies can afford and hence increase their ability to take on debt. For example, include the fact that women nowadays are much more involved in the labor market than 50 years ago. Third, public spending conditions are very different for Italy than for Germany. By aligning fiscal and monetary policy between the EU and national level it is possible to reduce the difference in interest rate payments between the member states.

Three insights from the discussion with the audience

- Green investment carries a risk of sector-specific inflation. Nonetheless, fiscal investment is needed.
- Fiscal policy is political! When fiscal rules are too tight, countries cannot provide prosperity in terms of jobs, a pristine environment, and affordable housing. A lack of those might fuel right-wing populism.
- Legislative changes are a political decision. Laws can be broken and changed. Corona bonds were possible during the pandemic.