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The Austrian ASFINAG as a model for more infrastructure investment in the EU

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Abstract

Currently the EU is debating how to increase investment for better growth and employment. EU Commission President Junker has announced an investment plan over 315 bn euro. The ability of the private sector to finance long term infrastructure investment is reduced by EU regulation – Basel 3 for banks, Solvency 2 for insurers. Public sector investments in the EU are hampered by high debt and the restrictions of the Stability and Growth pact. In the EU and especially in the euro area fiscal policy has been mostly pro-cyclical, especially public investment suffered from austerity policies in the crisis, making the recessions more severe.

The Austrian ASFINAG finances and operates the Austrian highway system and has improved it significantly through massive investments in the last two decades. Although it is state owned and has a state guarantee for its debt, which allows cheap financing, it is a private company that belongs to the private sector, as it can cover its costs through user fees. This ASFINAG model which makes use of the flexibility of the Stability and Growth pact could be used to increase infrastructure investments in the EU significantly. The German government has already announced that it will use the ASFINAG model for road infrastructure investment. The ASFINAG model cannot only be used for roads, but also for other infrastructure networks, e.g. energy and telecom, or housing, where the costs can be covered by user fees. Infrastructure investments have now high multipliers for growth and employment because of the significant slack in the economies of most EU countries.

To finance infrastructure and give the euro area counter cyclical capabilities an **Infrastructure Investment System (IIS)**, where each euro area country has one N**ational Infrastructure Investment Agency (NIIA)**, which could comprise several sectoral investment companies like ASFINAG. They would be government owned and have public guarantees for their debt, but belong to the private sector as they must cover their costs through user fees. At euro area level a **Euro Area Infrastructure Investment Agency (€IIA)** would have coordination functions and to strengthen counter cyclical capabilities of the euro area the ability to finance 1 % of euro area GDP for infrastructure investment through Eurobonds. To avoid transfers between countries, each country must provide secure collateral for the financing received from the €IIA, e.g. future profits of National Central Banks. For financing above 1 % of euro area GDP additional collateral would be needed which could come from pledging the tax income of potential future taxes agreed at euro area level e.g. Financial Transaction, Financial Activities, Departure/Flight Duty, CO2, or Corporate Income Taxes.

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1. Introduction

Since the great recession growth in the euro area has been weak compared to the USA and recently the UK. Unemployment in the euro area in 2015 is 11 %, double the level in the USA and the UK where it has come down substantially to just over 5 % according to the spring 2015 European Economic Forecast.

As a consequence output legitimacy (which in democratic theory refers to a project to deliver expected results) of the EU integration project and the Euro has suffered, which has resulted in substantial gains of parties hostile to the EU and Euro integration project at the last EU Parliament and national elections .

What explains these differences? With the onset of the great recession in 2008 nearly everybody, but especially the euro area, the USA and the UK embarked on expansionary fiscal and monetary policies. These policies were quite successful in avoiding a rerun of the great depression of the 1930s, and in 2010 all three economies were growing again.

Monetary policy in the US, UK and the euro area has been very expansionary since then; a rate increase in the euro area was quickly reversed. Fiscal policy however diverged. The euro area embarked on a general austerity policy, not only in the crisis countries with financing difficulties, but in all countries. As a consequence in 2015 the fiscal deficit in the euro area is 2 % of GDP whereas in the USA and in the UK it is more than double that level, above 4 % of GDP.

As former Fed Chairman Ben Bernanke (Bernanke, 2015) has highlighted: “Europe´s failure to employ monetary and fiscal policy aggressively after the financial crisis is a big reason that eurozone output is today about 0.8 % below its precrisis peak. In contrast, the output of the U.S. economy is 8.9 % above the earlier peak – an enormous difference in performance.” In 2010, “the unemployment rates in Europe and the U.S. were 10.2 % and 9.4 % respectively. Today the U.S. jobless rate is close to 5 %, while the European rate has risen to 10.9 %.”

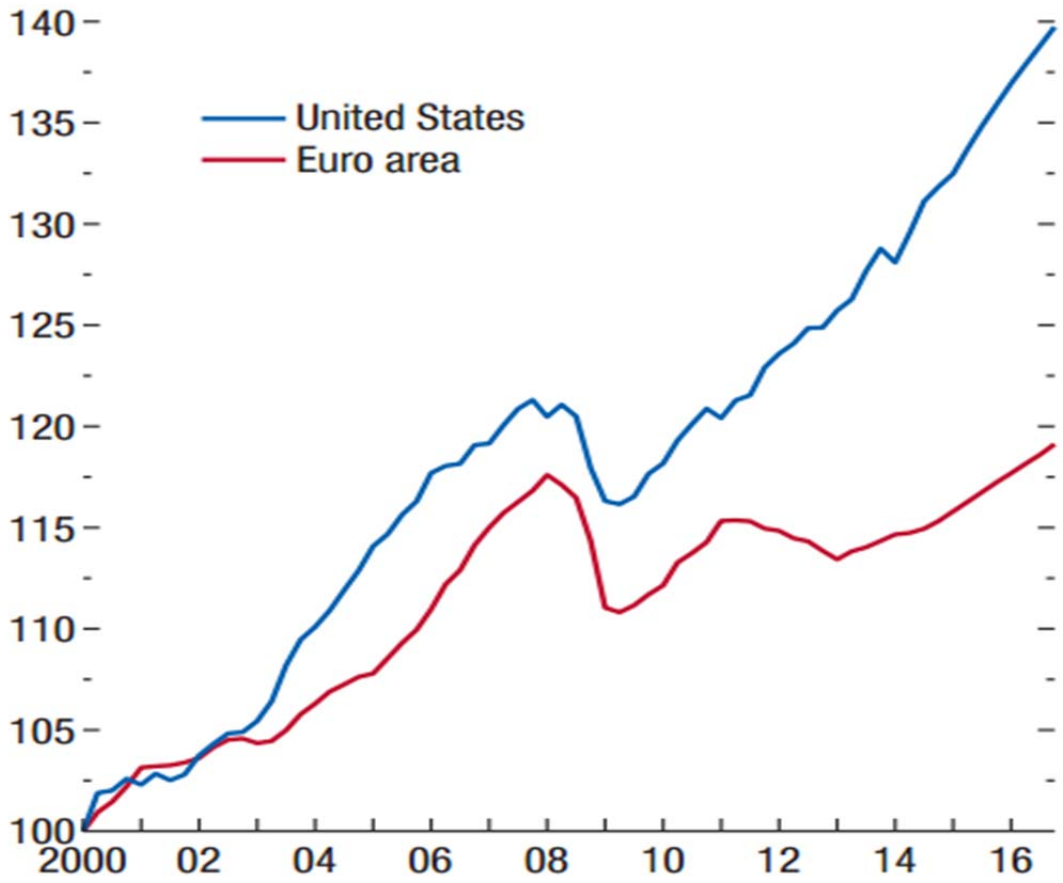
I had already warned in 2010 in an article “Growth-friendly fiscal consolidation” (Nauschnigg, 2010) that a fast elimination of fiscal stimulus will be negative for growth and that the growth problems are more serious than the deficit problems in the EU. I mentioned historical experiences like the USA in 1937 and Japan in 1997 that show if, in the aftermath of a deep financial crisis, the fiscal stimulus is taken away prematurely economies can easily fall back into recession.

I also showed how growth damaging fiscal consolidation in Austria had been in 2001 when a right wing coalition tried to reach a balanced budget. Austrian growth fell dramatically leading to the biggest negative growth differential with the rest of the EU since the 1970ies, unemployment increased and the deficit returned, so the experiment had to be abandoned.

Sadly I was right, fiscal multipliers worked and the euro area fell back into recession in 2012 and 2013, which led to a surge of the unemployment rate to 12 %.

The following Chart based on IMF staff calculations in the October 2015 WEO (IMF, 2015) shows how Europe fell back against the US.

Real GDP growth in the US and the euro area (base = 2000)



Source: IMF WEO October 2015, Figure1.1.1. IMF staff calculations

When sovereigns attempt to deleverage while companies and households are unwilling or unable to spend, growth suffers. So despite restrictive fiscal policies in the euro area public debts kept rising. In the long run only a growth friendly fiscal consolidation is successful as lower growth and the resulting rise in unemployment increase deficits still further. The rise in unemployment is particularly damaging, as the hysteresis effect makes it very difficult to lower unemployment again, with negative implications for fiscal consolidation in the longer run.

The hysteresis effect of financial crisis was highlighted in the recent IMF WEO (IMF, p. 51, 2015) "surprisingly high two-thirds of recessions are followed by lower output relative to the prerecession trend. Even more surprisingly, almost half of those are followed by not only lower output, but also by lower output growth relative to the prerecession trend".

It is wrong to mix the origins of the crisis – financial crisis based of overshooting capital flows and credit booms with the symptoms of the crisis – increased public debt. Whoever only tries to consolidate the budget does not reach the cause of the crisis.

Yet a growth friendly fiscal consolidation is possible (Nauschnigg, 2010), in which private demand compensates falling public demand, as the Austrian experience from 1995 to 1999 shows. But to shift demand from the public to the private sector requires policy action. It is hopeless to pin one's faith in unspecified confidence or non-Keynesian effects, as advocates of austerity have done. Austria brought the deficit down from 5.8 % of GDP in 1995 to 1.7 % in 1997, fulfilling the EU Stability and

Growth pact (SGP). For increased infrastructure spending (roads, railways, buildings) a particular sort of public private partnership (PPP) was created and infrastructure investment was done through private companies owned by the state; Autobahnen- und Schnellstraßen-Finanzierungs-Aktiengesellschaft (ASFINAG) for roads and motorways, Österreichische Bundesbahnen (ÖBB) for railways, Bundes Immobilien Gesellschaft (BIG) for buildings. They have low financing costs as they have a state guaranty for their financing and operate as efficient as other private companies. Their income consists of user fees for the infrastructure – user fees railways; tolls, vignettes for cars, and road pricing for Lorries for Autobahnen; rent income for buildings from users in the public sector. This allows them to pay down their debt over the lifetime of the infrastructure. The building and infrastructure investments increased substantially. Infrastructure spending (roads, railways, buildings) which had traditionally been financed out of the budget was shifted to entities belonging to the private sector. Public demand was replaced by private demand, which had the effect of lowering the budget deficit.

In addition the tax system was used to offset the negative demand effects, by lowering the savings rate to increase private demand. The tax rate on interest income was increased from 22 % to 25 %. Savings subsidies were lowered and made countercyclical. Tax-exempt reserves in the real estate sector had to be invested within two years, otherwise they would be taxed, and as a result they were all invested.

The strategy proved successful. The budget deficit was lowered by around 3 % of GDP without losses in growth and employment. Public demand was shifted from transfers to investment. Additional infrastructure was created, increasing growth potential.

Germany who lowered its budget deficit, not by lowering the savings rate and investing more but by increasing the surplus in the external sector has an “investment gap” of three percentage points of GDP compared to the OECD average (Expertenkommission, 2015). One gets the experience driving from Vienna to Munich on the motorway. In Austria it is mostly new, three lanes in one direction and smooth, after Salzburg in Germany only two lanes, bumpy and crowded with frequent traffic jams.

Austria achieved a growth-friendly fiscal consolidation. Unemployment increased only marginally and was brought back to 3.9 % already in 1999. Austria was for a long time the EU country with the lowest unemployment rate, under 5 %, whereas the European average was nearly double the Austrian rate. Only recently because of sluggish growth and an influx of foreign workers, the biggest contribution coming from German workers, Austrian unemployment has increased to over 5 %. The higher aggregate demand, aided by strong infrastructure investment, helped avoid structural unemployment and made the structural reform process easier.

2. Increased infrastructure investments to end economic stagnation in the Euro area

The euro area is like an airplane with two engines, where one engine monetary policy is working full thrust, while the other engine fiscal policy is in thrust reversal mode. So to lift growth in the euro area monetary policy needs support from other policies, otherwise it could become overloaded. In the euro area we are close to what Keynes called a liquidity trap when monetary policy reaches the zero lower bound and becomes less effective in stimulating economic growth. It is fiscal policy which is more effective in such a situation in stimulating economic growth.

The EU growth strategy was based up to now mainly on structural reforms which only in the medium to long run have substantial expansionary effects. In the short term there is often a so called "J curve effect" which Austria also experienced after strong structural reforms in the context of EU entry in 1995 (Nauschnigg, 2010). The euro area needs measures with immediate positive growth effects. Here we should concentrate on investment which has been particularly weak in the euro area with negative growth rates, compared to the US were investment has been growing strongly since 2012. The needs for public and private investments in the EU and the euro area are huge – transport and energy infrastructure, especially also trans-European infrastructure but also investment in new private production capacity.

But the ability of the private sector to finance long term infrastructure investment is reduced by EU regulation – Basel 3 for banks, Solvency 2 for insurers. This regulation requires more capital for long term risky infrastructure projects, so banks and insurance companies have less incentive to use their scarce capital for the financing of infrastructure projects. So we should increase public sector infrastructure investments. But public sector infrastructure investments in the EU and especially the euro area are hampered by high debt and deficits and the restrictions of the Stability and Growth pact.

Internationally China has used the fiscal stimulus to increase infrastructure investment. In the transport sector this has led to better railways and metros increasing potential growth. In the USA QE was not guided into infrastructure investment, so bad infrastructure is a drag on potential growth. US QE has instead led to property booms and stock market bubbles.

The EU has now recognised that it has to increase investment in the EU. The so called „Junker Plan" announced by EU Commission President Junker in 2014 (EU, 2014) is an investment plan which over several years should increase investment by 315 bn Euro. It was finally decided in June 2015 and the European Investment Bank (EIB) is starting to implement it. On 29 June 2015, one day after the Junker investment plan was decided, we had a big conference, which I initiated, in the OeNB in Vienna together with the EIB – "Investitionsfinanzierung in Österreich – Die Bedeutung der Investitionsoffensive für Europa". The conference had around 200 participants and speakers, among them Austrian Finance Minister Schelling, OeNB Governor Nowotny and EIB Vice President Molterer. It showed that this EU investment offensive is well received in the Austrian business community.

The International Monetary Fund (IMF) has concluded in its Word Economic Outlook (WEO) in autumn 2014 (IMF, 2014) that „increased public infrastructure investment raises output in the short and also in the long term, particularly during periods of economic slack and when investment efficiency is high". In the short term demand effects dominate and in the long term, supply effects dominate. Even debt financed projects could have large output effects without increasing the debt-to-GDP ratio. In countries with infrastructure needs and low real interest rates the time is right for an increase in infrastructure investment.

A study done by the US Federal Reserve (Hills, Nakata, 2014) shows that the fiscal multipliers are high when the interest rate policy is constrained at the zero lower bound. In this case fiscal multipliers are between 1.1 and 2.5.

A Meta Regression Analysis on Fiscal Multipliers (Gechert, Will 2012) with 89 studies concludes that public investments have the highest fiscal multiplier of 1.2, followed by military expenditure 1.1,

public demand 1 and public consumption 0.9. The lowest fiscal multipliers have transfers 0.4, followed by tax reductions 0.6.

Also the EU Commission (Carnot, Castro, 2015) finds that „the average short-run fiscal multiplier is estimated at a bit below unity on average, with the aggregate expenditure multiplier being between twice and three times as large as the aggregate revenue multiplier in general". The multipliers are significantly larger during recessions and bad times. In the EU the fiscal policy has generally been conducted in a more stop and go and pro-cyclical fashion over the past ten years.

All these studies show, that an increase in infrastructure investments in the EU and especially the euro area would currently yield huge economic benefits by increasing demand and growth in the short term and through better infrastructure help supply and potential growth in the long term. The financing costs are at historic lows. As the IMF argued in its October 2014 WEO (IMF, 2014) the time is right for increased public infrastructure investments. These investments would have large output effects because of high multipliers, without increasing debt-to-GDP ratios.

The Junker investment plan is a step in the right direction to increase investment for better growth and employment, but will alone not be sufficient to lift EU und especially euro area growth substantially. Public sector investments in the EU are hampered by high debt and deficits and the restrictions of the Stability and Growth (SGP) pact. We should not engage in fruitless discussions of changing the SGP, but use its flexibility as Mario Draghi has recommended in his 2014 speech in Jackson Hole (Draghi, 2015) "the existing flexibility within the rules could be used to better address the weak recovery and to make room for the cost of needed structural reforms."

Here the ASFINAG could serve as a model for more infrastructure investment for other countries but also for other sectors to increase euro area investment and help the recovery.

3. The ASFINAG as a model for more infrastructure investment

In 1996 when I was the economic adviser to the Austrian Finance Minister Klima, I was involved in the creation of an Infrastructure company for the operation of the whole Austrian motorway system – the Autobahnen- und Schnellstraßen-Finanzierungs-Aktiengesellschaft (ASFINAG). ASFINAG is responsible for the planning, financing through debt and user fees, development and operation of the Austrian Highway system (ASFINAG, 2015). ASFINAG is wholly owned by the Austrian state and has a state guarantee for its debt which allows cheap financing. ASFINAG belongs according to EU nomenclature (European System of National Accounts) to the private sector, as it can cover its costs through user fees.

Advantages of the ASFINAG model (Nauschnigg, 2015):

- Higher infrastructure investments of between 0,2% to 0,4% of the Austrian GDP, which can also be varied according to the cyclical position of the economy – in 2007 spending of 0.8 billion Euro, which increased till 2010 to 1.7 billion Euro. In 2014 ASFINAG invested 0.9 billion Euro.
- Much lower financing costs because of state guarantee for its debt
- Double entry book keeping for investments instead of Kameralistik (only payment streams) in the public sector

- More pressure that road transport covers its costs; this creates a level playing field with other modes of transport. The vignette for cars costs 84.40 Euro for the whole year 2015. Lorries starting with 3.5 tons have to pay, according to weight and environmental standards, between 0.16 and 0.44 Euro/Kilometre. Users instead of taxpayer pay for roads.
- Helps the environment as more polluting Lorries have to pay higher fees, encouraging a shift to cleaner Lorries.
- Combination of the advantages of the private sector – efficiency, flexibility – with the public sector – lower financing costs.
- Road building according to traffic needs not political priorities
- Operation of the whole network with the use of synergies and low transactions costs
- Compared to traditional public private partnerships models substantial cost savings - lower financing costs, lower transactions costs, use of synergies and optimisation of whole network.

ASFINAG has since 1997 increased its capital from retained profits by 3.1 billion Euros. At the end of 2014 ASFINAG had a capital of 3.6 billion Euro and debts of 10.5 billion Euros. ASFINAG can easily cover its costs through user fees. In 2014 the income of ASFINAG 2.3 billion Euro surpassed its spending 1.6 billion Euros significantly (ASFINAG, 2015). Highway financing in Austria has moved from the budget to users. I already remarked in my master thesis comparing different modes of transport, that also road transport should cover its costs to create a level playing field with other modes of transport (Nauschnigg, 1982).

In 2014 with the updating of the European System of National Accounts some austerity zealots in the EU had tried to shift ASFINAG to the public sector. As we Austrians could demonstrate that ASFINAG can cover its costs through user fees and has worked well for nearly 20 years we argued that it should remain in the private sector. After some discussions with Austrian authorities in mid 2014 EUROSTAT accepted ASFINAG also within the new EU system of national accounts in the private sector. So we won this debate.

In November 2014 the German Economics Ministry invited me to give a presentation on the ASFINAG model in the expert commission “Increasing Investment in Germany” in the Economics Ministry in Berlin. In its report the expert commission proposed to examine the possibility to establish a public infrastructure company for federal trunk roads using the experience of other countries – such as Austria, France and Switzerland (Expertenkommission, 2015). The German government, Vice Chancellor Gabriel and Finance Minister Schäuble, has already announced that it will use the ASFINAG model for road infrastructure investment. Schäuble remarked “Die vorgeschlagene Infrastrukturgesellschaft werden wir jetzt gründen” (Handelsblatt, 2015).

In July 2015 the Eurosystem added ASFINAG together with other infrastructure related agencies to the Asset Purchasing Programme (APP) of the Eurosystem where the Eurosystem buys 60 bn Euro per month; mostly government bonds, but also Asset Backed Securities (ABS), covered bonds and government agencies.

The ASFINAG model cannot only be used for roads, but also for other infrastructure networks, e.g. energy and telecom, and housing, where the costs can be covered by user fees. Infrastructure investments have now high multipliers for growth and employment because of the significant slack in the economies of most EU countries.

As the ASFINAG model uses the flexibility of the Stability and Growth pact, it could be used to increase infrastructure investments in the EU significantly. It can now also serve as a model for infrastructure investment for other countries in the EU. Together with the „Junker Plan“, it could lift EU and especially euro area growth substantially.

4. Infrastructure investment in the EU

Along the Austrian ASFINAG model each EU country could create one general or several specialised infrastructure companies. They would be state owned private entities with a state guarantee and invest in infrastructure with this cheap financing. Some countries with existing development banks could use these vehicles instead. The national entities would cooperate with the European Investment Bank for trans-European infrastructure financing. The idea is to use the current low financing costs of the sovereign for cheap financing and efficient private sector but full or partly state owned companies for operations. They would be obliged to recover their costs through user fees and should be obliged to pay down their debt over the lifetime of the infrastructure, so as not to worsen the debt sustainability of the states.

The ASFINAG model cannot only be used for roads, but also for other infrastructure networks, e.g. energy and telecom, or housing, where the costs can be covered by user fees.

This could lower the financing costs of new infrastructure substantially. In Austria the company “Verbund” listed on the stock exchange, but majority state owned is operating the electricity grid. It has got an interest rate of 6.1 % for new investments by the regulator. If we had something similar to ASFINAG for the new smart grid, financing costs and therefore grid costs for the consumers would be much lower. A study in Germany by the TU Berlin has calculated the costs of different options for the new electricity grid and concluded public ownership and financing would be the cheapest option. Countries, who have other infrastructure needs e.g. housing in Austria, could use the vehicles also in this field. Countries who can afford it could subsidise increases in energy efficiency in the housing stock and other energy savings, as Austria is doing.

Infrastructure investments have now high multipliers for growth and employment because of the significant slack in the economies of most EU countries.

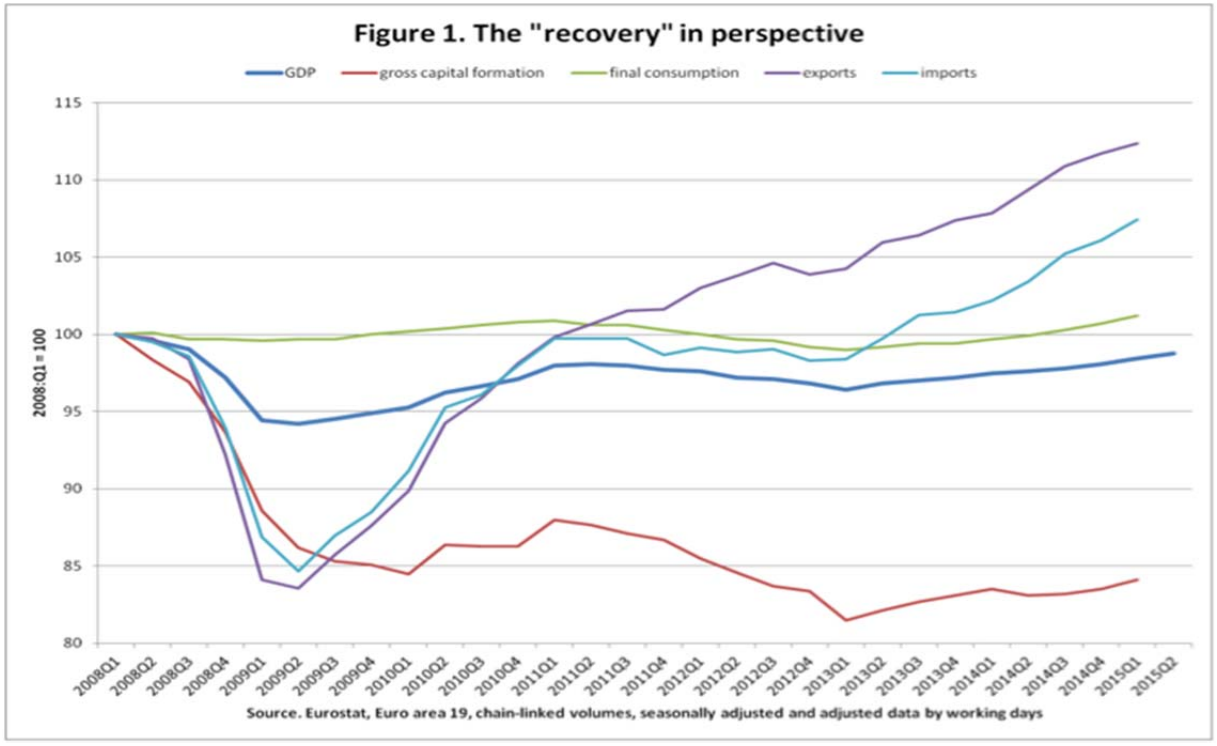
5. Infrastructure Investment System in the Euro area

The deep crisis in the euro area has shown that a deepening of the Economic and Monetary Union (EMU) is necessary, see also the 5 Presidents´ report (European Commission, 2015) on “Completing Europe`s Economic and Monetary Union” and the earlier 4 Presidents´ report.

As even an EU Commission study (Carnot, Castro, 2015) concludes that in recent years fiscal policy in the EU has been mostly pro-cyclical; “the discretionary fiscal effort suggests that, with exceptions, fiscal policy in the EU has been conducted in a more stop and go and pro-cyclical fashion over the past ten years than suggested by traditional indicators”.

Especially public investment suffered in the EU. While public investment has increased in other countries, such as the US, in the EU it has declined and even collapsed in the crisis countries, making the recessions more severe. A Bruegel study (Barbiero, Darvas, 2014) concluded “government gross fixed capital formation has been a major victim of fiscal consolidation in the EU. Therefore, it is clear that the EU fiscal framework was unable to foster public investment as a counter-cyclical fiscal stabilisation tool during the deepest crisis since the Second World War.”

Figure 1 (Source Bibow, 2015) supports this conclusions, as it shows that investment, gross capital formation, has been the weak point in the euro area economy.



In its October 2015 Quarterly Report on the Euro Area also the European Commission (European Commission, p. 10, 2015) has drawn attention to investment as the weak point in the euro area recovery: “In contrast with consumption and exports, non-residential investment in the euro area appears distinctly weak compared both to previous recoveries and to other advanced countries. Unlike in previous recoveries, non-residential investment has not experienced a major rebound since the cyclical trough and remains below pre-crisis levels both in absolute terms and as a share of GDP. While in the immediate aftermath of the global financial crisis, euro area non-residential investment suffered a similar drop as in other advanced countries hit by banking crises, it did not rebound in 2011 as it did elsewhere. Moreover, euro area investment experienced an additional drop with the onset of the sovereign debt crisis and has since turned into the main drag on the euro area recovery.”

The 5 Presidents´ report argues for a fiscal stabilisation function for the euro area, but sees this only at the end of a very long term process. Other mature Monetary Unions have over time put in place a common macroeconomic stabilisation function to better deal with shocks that cannot be managed at the state level alone. But the degree to which currency unions have common budgetary instruments differs. As there are many ways for a currency union to progress towards a Fiscal Union, for the euro

area this could be through an "**Infrastructure Investment System**" for which the Eurosystem could serve as a blueprint.

Euro area Infrastructure Investment System (IIS)

Each euro area country would create one N**ational Infrastructure Investment Agency (NIIA)**, which could contain up to several sectoral investment companies e.g. ASFINAG according to the Austrian Model. They would be established along the Austrian ASFINAG model as state owned private entities with a state guarantees. They would invest in infrastructure – roads, railways, energy, telecom, and in addition in housing, and tertiary education.

The decision in which sectors to invest would be at national level, with coordination at euro area level, especially for Trans-European Networks (TENs) in transport and energy. They would use the current low financing costs of the sovereigns for cheap financing and efficient private sector but full or partly state owned companies for operations. They would be obliged to recover their investment and costs through user fees and should be obliged to pay down their debt over the lifetime of the infrastructure, so as not to worsen the debt sustainability of the states. This would put pressure on the efficiency of the projects undertaken.

Projects with an added value at European level, e.g. Trans-European Networks TENs could be co-financed by the European Investment Bank and the Junker Plan (EFSI).

For coordination there would be a council of the heads of the national infrastructure investment agencies. These council, would be the decision making body of the **Euro Area Infrastructure Investment Agency (€IIA),** which together with the N**ational Infrastructure Investment Agencies (NIIA)** would form the **Infrastructure Investment System (IIS).**

In close cooperation with the EU Commission and Eurostat the €IIA would be responsible for checking that the investments have a sufficient income stream to be self-financing over the lifetime of the infrastructure. The EU Commission and Eurostat should certify if the income stream is sufficient to recover the costs over the lifetime of the infrastructure, to be classified into the private sector. This would also put pressure on the efficiency of the infrastructure projects as they would have to cover their costs.

Thus this additional infrastructure investment would not interfere with responsible national fiscal policies. One lesson of the crisis has been that fiscal policies are a matter of vital common interest in a Monetary Union. Unsustainable fiscal policies can create contagion between Member States and financial fragmentation, as the Greek example has shown.

The **euro area Infrastructure Investment Agency (€IIA)** would have this coordination, but in addition also a counter cyclical stabilisation function.

Euro area-wide fiscal stabilisation function

All mature Monetary Unions have put in place a common macroeconomic stabilisation function to better deal with shocks that cannot be managed at the national level alone. National fiscal policies must perform a double function: guaranteeing that public debt is sustainable and ensuring that fiscal automatic stabilisers can operate freely to cushion country-specific economic shocks.

At the euro area level it is important to ensure also that the sum of national budget balances leads to an appropriate fiscal stance. Pro-cyclical fiscal policies as happened in the past should be avoided. Finally, in case of a very severe crisis, national budgets can become overwhelmed, as was the case in some countries in the euro area in recent years. In such situations, national fiscal stabilisers might not be enough to absorb the shock and provide the optimal level of economic stabilisation, which in turn can harm the whole euro area. For this reason, we need a euro area-wide fiscal stabilisation function.

Infrastructure investment has been used in Austria for cyclical stabilisation extensively since the 1970s with generally good results. Infrastructure investment was an important part of Austro-Keynesianism. During the model of Austro-Keynesianism from 1970 -2000 Austria had higher growth and lower unemployment than the EU average. Investments in Austria in the 1990s were around one third above the EU level. Through counter cyclical fiscal policies, financed inside the budget in the 1970s and outside the budget in the 1980s (export financing) and 1990s (e.g. ASFINAG), increases in unemployment were kept to a minimum, as it is difficult to reduce unemployment due to the hysteresis effect. The damaging hysteresis effect of financial crisis on growth was highlighted in the recent IMF WEO (IMF, p. 51, 2015).

In this Austria has been in the tradition of the economic German historic school in the 19 century "Deutsche Historische Schule" which stressed that public debt is necessary and useful if it is used for public investment. Carl August Dietzel stressed that public debt "Staatscredite" for financing of public investment are a necessary element of the economic process. Public investments were seen as a major contribution to increasing productivity and growth. But the return should cover the interest payments. In the 18 and 19 century the Anglo Saxons, most prominently Adam Smith and David Ricardo were against public debt which at that time was mostly the result of war financing. David Ricardo even argued for a one off wealth tax to eliminate all public debt. Now the positions are reversed. Whereas the Anglo Saxon mainstream is in favour of deficit financing and against austerity, the German mainstream is against deficit financing and in favour of austerity.

To give the euro area counter cyclical capabilities the €IIA should be able to finance 1 % of euro area GDP for infrastructure investment, through Eurobonds guaranteed by euro area member states. The funds would be distributed to euro area member states according to the ECB capital key.

To avoid transfers between countries, each country must provide secure and sufficient collateral for the financing received from the €IIA. This collateral could be future profits of National Central Banks (NCB) in the Eurosystem. If a country is not able or willing to pay back the financing received from the €IIA the collateral is used for settling this debt to the €IIA. The Eurosystem which has extensive experience in collateral management could analyse if the pledged collateral is sufficient. This collateral guarantees that every country pays back what it received, so that no transfer union is possible.

The operation of the €IIA would thus be in line with the guiding principles of the 5 Presidents´ report (European Commission, 2015) on "Completing Europe`s Economic and Monetary Union":

• "It should not lead to permanent transfers between countries or to transfers in one direction only, which is why converging towards Economic Union is a precondition for participation. It should also not be conceived as a way to equalise incomes between Member States.

• It should neither undermine the incentives for sound fiscal policy-making at the national level, nor the incentives to address national structural weaknesses. Accordingly, and to prevent moral hazard, it should be tightly linked to compliance with the broad EU governance framework and to progress in converging towards the common standards described in Section 2.

• It should be developed within the framework of the European Union. This would guarantee that it is consistent with the existing EU fiscal framework and with procedures for the coordination of economic policies. It should be open and transparent vis-à-vis all EU Member States.

• It should not be an instrument for crisis management. The European Stability Mechanism (ESM) already performs that function. Instead, its role should be to improve the overall economic resilience of EMU and individual euro area countries. It would thus help to prevent crises and actually make future interventions by the ESM less likely".

To strengthen the counter cyclical stabilisation function of the €IIA, the European Fund for Strategic Investments (EFSI) could be also used, by identifying a pool of financing sources and investment projects specific to the euro area. Should this not be sufficient the €IIA could provide more financing.

For infrastructure financing from the €IIA above 1 % of euro area GDP additional collateral would be needed which could come from pledging the tax income of future taxes agreed at Euro area level e.g. Financial Transaction Tax, Financial Activities Tax, Departure/Flight Duty Tax, Energy/ CO2 Levy, Corporate Income Tax.

If a euro area country does not participate in a tax it could provide no additional collateral and therefore could receive no additional infrastructure financing. This avoids moral hazard and ensures joint fiscal discipline. The trust in the common EU fiscal governance framework is reinforced and incentives for common euro area taxes created.

6. Conclusions

The stabilisation function of the €IIA at the euro area level would not try to fine-tune the economic cycle at Euro area level, but help to cushion the euro area from large macroeconomic shocks and make EMU overall more resilient. Better infrastructure would help the supply side response in the euro area. It could also be used when monetary policy is at the zero lower bound and therefore becomes less effective.

In parallel the current fiscal framework 'Six-Pack', the 'Two-Pack' and the Treaty on Stability, Coordination and Governance could be implemented to prevent budgetary imbalances at national level. The forthcoming review of the 'Six-Pack' and 'Two-Pack' should be used to make the rules less complex and improve clarity, transparency, compliance and legitimacy.

The goal should be to increase infrastructure investment by around 1 % of euro area GDP in each of the next two years by financing it outside the budget. As the money from the counter cyclical capabilities of the €IIA of 1 % of euro area GDP does not need an income stream it could be used to finance spending on neglected Europe 2020 goals such as research and education, early childhood investment, child care infrastructure maintenance and upgrading, ecological renovation of homes and offices, bottlenecks in energy and broadband grids etc. The priorities would be determined at national but coordinated at euro area and EU level.

The additional public investments should also give an incentive for increased private investment. This would allow the euro area and the EU to grow again, lowering unemployment and make it easier to fulfil the deficit goals of the SGP. The investments by companies and the additional infrastructure would increase the growth potential.

The Infrastructure Investment System would not need a treaty change but could serve as an important step towards Fiscal Union in the euro area. The Eurobonds emitted by the €IIA and guaranteed by euro area member states would be a safe asset for the banking and financial system of the euro area, for the Eurosystem APP and also for international investors.

Using infrastructure investment by efficient infrastructure projects which cover their costs would not worsen the debt sustainability of the member states.

Growth in the euro area would increase substantially. The euro area and the EU would reap huge economic benefits by increasing demand and growth in the short term and through better infrastructure have better supply conditions and potential growth in the long term. The situation is especially beneficial as financing costs are at historic lows, so it should be easier for the investments to recover their costs.

Monetary and fiscal policies in the euro area and the EU would operate in the same expansionary direction as they did successfully in the great recession. Euro area growth would not depend on external demand and could even contribute to lessen global imbalances.

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