



By: Mariana Mazzucato

Public investment strenghtens productivity



Whether a hospital can hire nurses, a school can repair its roof, or a country can build a clean-energy grid often depends on factors that rarely make the news.

For many governments, rules limiting deficits, debt, or spending ultimately determine whether they can invest in the future.

These constraints matter more than ever. As finance ministers gather in Bangkok for the International Monetary Fund and World Bank Annual Meetings, the IMF is already warning that debt is near its highest level since World War II.

The **Fund's message** for governments is that fiscal consolidation is essential, even if it comes at a high political cost.

Painful choices today, it is assumed, will put public finances on a stronger footing tomorrow.

But cutting spending that supports growth and resilience may not only inflict hardship now. It also may weaken the economy and make debt harder to reduce later.

Governments' fiscal policies should be judged by whether they strengthen the economy's capacity to meet public obligations over time.

This insight comes from the **Global Council on New Economics for the 21st Century**, which I co-chair with Spain's first vice-president, Carlos Cuerpo.

The council's first **policy brief**, "Fiscal Rules and Long-Term Inclusive Growth," argues that while fiscal responsibility is the right goal, it cannot be properly measured through deficits and debt targets alone.

What public spending builds, and how it strengthens the economy over time, must count, too.

After all, if you cut spending in a downturn, economic activity and tax revenues will fall. Your target will recede as you chase it, because debt will rise relative to GDP.

In 2013, the **IMF's own reassessment** of European fiscal adjustments during the recent crisis found that forecasters had badly underestimated the damage that consolidation caused to output.

The claim that growth collapses once debt surpasses 90% of GDP was used to justify cuts across Europe and the United States. But the claim rested on a **spreadsheet error**.

A project is easier to postpone than a salary

When an economy is running below capacity, well-directed public investment **raises productive** capacity and crowds in private investment.

Public investment is not a cost to be minimized, but a lever on which private investment and growth depend.

Yet whenever fiscal targets take priority, public investment is the first thing to be cut.

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Mexico's recent experience demonstrates this tension. Its fiscal adjustment caused physical public investment to fall from 3.1% of GDP in 2024 to 2.2% in 2025, even though its **Plan México** program depends on sustained investment in infrastructure, water, energy, and skills.

Standard accounting practices reinforce this bias. If you borrow to build a publicly owned hospital, conventional debt measures will record the liability but exclude the asset (the hospital).

Short-term forecasts then compound the problem. A three-year forecast captures the cost of an investment and almost none of its return.

Rewriting the rules

Owing to these limitations, some governments have begun to rewrite their rules.

Since 2024, the United Kingdom's debt rule no longer looks only at what the government owes.

When the state lends money or takes a stake in a company, that now counts on the other side of the ledger as something it owns; and when the Treasury decides whether a project is worth doing, it now gives more weight to benefits that will arrive years later.

This is progress, but it is not enough. Since the UK's new rule looks only three years ahead, the hospitals, roads, and grids that the public owns are still left out of the count.

Social infrastructure is as important as physical infrastructure

Moreover, one must remember that social infrastructure is as important as physical infrastructure.

In the long run, it costs less to take care of a troubled teenager than to imprison him or her.

Of course, some countries have far more maneuvering room than others, owing to a profoundly unequal financial architecture.

Countries dependent on foreign-currency finance must obtain the foreign-exchange reserves to service their debt and pay for imports, while accepting interest rates set by global markets.

Even borrowing in domestic currency can leave them exposed to volatile international

capital flows.

In 2025, developing countries paid a record **\$995 billion in net interest**. Some 3.7 billion people live in countries that must spend more on interest than on health or education.

Multilateral solidarity

Spain has shown what it looks like when governments protect productive and social spending through changing economic cycles, count what the state owns as well as what it owes, judge investment over the period in which its returns arrive, shape markets through procurement and public finance, and raise revenue more fairly.

Its **public debt** has fallen from 115.7% of GDP to around 100% since 2021, because the economy has grown.

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Better yet, its investments in **renewables** left it paying one-third less for electricity than its neighbors when this year's energy shock arrived.

But when it comes to easing external constraints, multilateral solidarity is the only solution.

That means pushing for IMF programs and debt assessments designed to protect investment rather than cut it; ensuring reliable access to liquidity before shocks become crises; establishing earlier debt-resolution processes; providing affordable long-term public-development finance; negotiating closer international tax cooperation; and pursuing joint action to stop energy and food price shocks before they reach national budgets.

Politics of public purpose

Since domestic reforms will not be enough to help countries facing external financing constraints, international institutions must provide more support and update their own approaches in line with their mandates.

IMF programs and debt assessments should consider the long-term damage that certain cuts can cause to growth, human capabilities, and fiscal sustainability, rather than treating all expenditure reductions as equivalent.



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They should protect spending that builds productive capacity, and avoid measures that undermine future revenue and resilience.

When governments insist there is no alternative to cuts, they erode trust and cede the field to far-right populists.

What we need is a politics of public purpose. True fiscal responsibility rests on a credible strategy for the economy, one that recognizes real constraints (the workers, materials, and capabilities a country can mobilize), evaluates what public spending achieves, and builds the institutions able to deliver.

The purpose of economic policy is to serve the common good. Fiscal rules should enable governments to invest in physical and social infrastructure, share the rewards to replenish the public purse, and create public value for citizens.

Fiscal responsibility means investing for the future and ensuring that our policies work for the majority of people.

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