



Prof. Marcel Fratzscher, Ph.D., President of the German Institute for Economic Research (DIW Berlin)

SIX QUESTIONS TO MARCEL FRATZSCHER

»We Need to Give Impetus to the Private Sector«

1. Prof. Fratzscher, what's the current state of the European economy? We have had positive growth figures for most crisis countries since the end of last year but growth is still too weak to pull southern Europe out of the crisis. So, we can't really talk about a recovery, especially since the unemployment figures in several countries are not very high and are even continuing to rise in some countries.
2. The current DIW Economic Bulletin warns that investment in Europe is too weak. How could willingness to invest be revived? We need a European investment agenda with three elements. First, we do not need more government intervention or public spending. Instead, we must promote the free market, improve the way markets function, and create more competition and more innovation. This applies in particular to private investment. Second, how can we give companies specific incentives to invest more? Here, you can do a lot through tax incentives. In Germany, we have already shown that in 2004 and 2009, for example, tax preferences for investments certainly can provide a positive stimulus for investment. The crisis countries should also have this fiscal scope. The third element is a European Investment Fund which, in principle, has the mandate to improve lending to small and medium-sized companies throughout the EU. This could be built on an existing platform, such as the European Investment Fund which is part of the European Investment Bank, for instance.
3. What is the role of the banks? Are they unable or unwilling to give loans to the economy? It's a bit of both. We have seen the demand for credit by businesses decrease significantly. But we also know that many banks do not pass on the liquidity they receive from the European Central Bank to companies, especially those in the crisis countries. Therefore, we must find a mechanism to repair this credit channel. The European Central Bank has tried, but it is very limited in what it can do. It can certainly give more loans to the banks, but ultimately it cannot force them to pass on these loans.
4. Various reforms have been attempted at national and European level. Are these measures sufficient? The reforms implemented at national and European level are certainly the right ones and are indeed immensely important. But they will not bring quick results in the form of greater growth and more employment. In Germany, it took us almost five years after the 2004 agenda of reforms to catch up with the rest of the euro area. It will take even longer for the European crisis countries because, at that time, we were very lucky to have implemented these reforms in a booming global economy, whereas today the southern European countries are operating in a very weak European and global environment.
5. What is your opinion of the idea of relaxing the rules of the Stability and Growth Pact? Relaxing the Stability and Growth Pact would send a fatal signal. This would give the impression that although we have set up new rules, they only apply for as long we want them to, and we can circumvent or reverse them relatively quickly. That would weaken the already fragile confidence in Europe and therefore the economy as well. It would be a measure that could fizzle out relatively quickly.
6. What should policy-makers do now? Policy-makers must create confidence by firmly pushing through reforms at national and European level. In particular, they should try and give impetus to the private sector. Only when private activity strengthens significantly, will we be able to get out of the crisis long term.

Interview by Erich Wittenberg



Das vollständige Interview zum Anhören finden Sie auf www.diw.de/interview

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