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FIVE QUESTIONS TO CLAUS MICHELSEN

»Europe's Investment Slump«

1. Dr. Michelsen, Europe has still not fully overcome the crisis. To what extent is this due to a lack of investment? We have seen that investment activity is very weak. This applies to the euro area as a whole and, in particular, to the crisis countries. It would certainly be helpful if both public and private investments were to increase; this would lead to improved growth in all countries.
2. Which economic sectors are most affected? We must differentiate between the construction sector in general and equipment investment made by companies themselves. Public investment has to be considered separately here. In the last two or three years, equipment investment has actually been significantly restrained in the whole euro area. In Germany, companies are very reluctant to invest. Residential construction boomed in the pre-crisis period, particularly in southern European countries. We have seen excesses and investments made there which, in hindsight, were more likely due to a real estate bubble. There is certainly a shrinking process taking place that has contributed to market recovery. This also applies to Ireland. In the northern European countries, for example, in Germany or the Netherlands, greater investment in residential construction would most definitely be required. We have seen sharp increases in real estate prices and rents, especially in Germany, which also indicates shortages.
3. How did investment activity in euro area countries develop during the crisis? Investment activity has declined equally fast in virtually all countries. However, Germany has experienced a slight upturn in construction investment. Otherwise, investment rates have remained low in all European countries since the crisis. This is a pattern that differs significantly from the US where investment is on the rise again. This was not

the case before the crisis. Corporate and construction investment was rising at the same high rate in both the US and Europe. Within Europe, however, the trends were different. There was strong investment activity on the periphery, in Greece, Italy, Portugal, and Spain, while in Germany, the Netherlands, and Finland, investment activity remained stagnant for many years. Up until the crisis, Europe developed very heterogeneously. Since the crisis, we have experienced low investment activity.

4. What are the causes? The situation is comparable with that in the US which experienced profound cuts after the financial crisis. This relieved the uncertainties of companies and they began to develop confidence in the future again. In Europe, it was different. The financial crisis there has been replaced by a euro crisis. This is the main reason why companies still do not appear to be confident enough, leading to a lack of sufficient investment.
5. Where would the euro countries be now if they invested more? We have calculated what it would have meant for potential growth if we had seen an appropriate rate of investment, according to our estimates, in Germany and in Europe. It would have meant greater potential growth for the euro area of two percentage points instead of 0.6 percent. In Germany, we would have seen potential growth of 1.7 percent instead of 1.4 percent. This equates to three tenths of a percentage point, and that is considerable for Germany. Crisis countries such as Ireland and Spain would have had positive growth if they had invested properly, and the economies of other countries would have contracted less. In this respect, greater investment activity would have helped us overcome the crisis better.

Interview by Erich Wittenberg.



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

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Volume 4, No 7
2. Juli, 2014
ISSN 0012-1304

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