INVESTMENT IN EUROPE

Setting the scene: Where do Europe‘s investment weaknesses lie?

Presentation HBS European Dialogue, Brussels 14 April 2016
Declining long-term trend, weak post-crisis recovery
Gross fixed capital formation, real % change
Declining long-term trend, rotating slumps in EA
Gross fixed capital formation, % of nominal GDP
Private investment weak recovery
Gross fixed capital formation, private sector, % GDP
Public investment exacerbating, not offsetting
Gross fixed capital formation, general government, % GDP
Country differences driven by construction
Gross fixed capital formation, equipment & construction, % GDP

Some conclusions

– Europe has an investment problem along different dimensions
  • Longer run (secular?) weakening (but also in US)
  • Weak recovery from the crisis
  • Public investment exacerbates longer-run weakening and pro-cyclical in short run
  • (Or: public and private investment complementary, no crowding out)
  • Construction booms and busts
  • Rotating slumps in Euro Area

– Implies there is no silver bullet
– Policy changes needed in a number of areas