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Article

"Germany's big weakness is a lack of investment": Seven questions to Marcel Fratzscher

DIW Economic Bulletin

Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

Suggested Citation: Fratzscher, Marcel; Wittenberg, Erich (2013) : "Germany's big weakness is a lack of investment": Seven questions to Marcel Fratzscher, DIW Economic Bulletin, ISSN 2192-7219, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 3, Iss. 8, pp. 17-

This Version is available at:

<https://hdl.handle.net/10419/78863>

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

SEVEN QUESTIONS TO MARCEL FRATZSCHER

»Germany's Big Weakness is a Lack of Investment«

1. Professor Fratzscher, in comparison with the rest of Europe, the German economy seems to be flourishing. Is Germany really doing as well as it appears to be? Germany weathered the crisis very well. However, if we look back 15 or 20 years, even by European standards, Germany was performing comparatively poorly. In the last 15 years, German growth has been very weak, its productivity growth marginal, and its wage development also very disappointing. Therefore, we really have no reason to be riding on a wave of euphoria as is currently the case.
2. So, what is the problem? Germany's biggest weakness is a lack of investment. Germany has one of the lowest rates of investment in the world. Relative to economic output, in the last 20 years, investment in Germany has plummeted. It would also make sense to use additional investment opportunities in the public sector, particularly in the transport infrastructure and in education. In the private sector, significant investment is needed to implement the energy transition. To improve Germany's medium and long-term growth prospects, we would need to see an increase in investment of three percent of GDP.
3. The German government has adopted a rigid austerity policy. Should it abandon this approach? No, fiscal consolidation is important. Public budgets must have a solid foundation. This is something that can be seen quite clearly from the debt crises in Europe. German public budgets are already generating slight surpluses again, which means that we already have the financial means to be able to make the necessary investments immediately.
4. How can investors be persuaded to invest more in Germany? The main aim should be to improve Germany's appeal as an investment location. To do this, we have to create the right framework conditions to convince companies to invest here. Obviously, this includes the infrastructure in the widest sense, an adequate skilled labor force, as well as legal certainty and planning security for businesses.
5. Lured by high returns, banks have tended to invest abroad. Yes, but that proved to be a mistake since, particularly in the last ten years, not only banks but also private companies and private households have recorded significant losses on their foreign investment. Our study highlights that, in the last ten years, investment in Germany has been very profitable compared to other countries.
6. When should we start to address the problem? These investments should be made as a matter of urgency. First, because Germany's economy is continuing to falter. Second, because financing conditions for the German government have never before been as favorable as they are at present. Third, because many of these investments will not bear fruit immediately but rather will need years to yield profits.
7. How much could the gross domestic product profit from more investment, in the medium and long term? According to our calculations, potential growth could be almost 50 percent higher. More specifically, this means that the ability of the German economy to generate growth and thus also employment, wage increases, and income has, at just under one percent of economic output per annum, been very limited to date. Implementing these investments would increase potential growth to almost 1.6 percent.

Interview by Erich Wittenberg.

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Volume 3, No 8
9 August, 2013
ISSN 2192-7219

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