Investment as a driver of growth?

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General considerations: Investment and growth

Higher investment => higher <u>level</u> of GDP in long run, not growth rate.

In short run Keynesian effect on growth, but temporary.

Increasing capital/output ratio => fall in return to capital (more non performing loans?).

Public versus private investment expenditure! (90 % private).

Infrastructure a 'non brainer'?

Where is the investment gap?

Delta investment: 2014 to 2007 about 400 billion.

Delta to average pre-boom about 250-300 billion (EC).

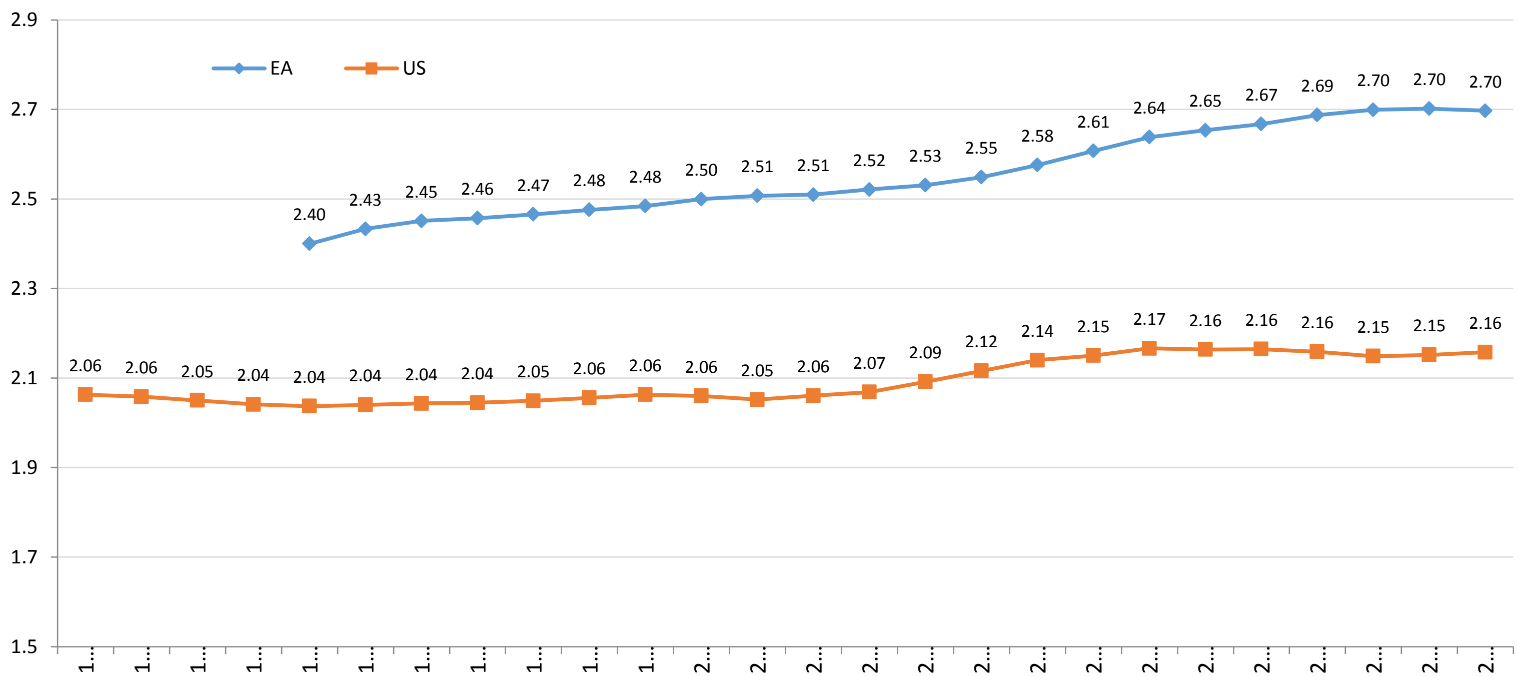
But lower working age population growth = lower potential growth (about 1% per annum)

=> need less investment to keep capital/output constant.

Reduction in growth of 1 % = about 2.5 % of GDP lower investment = gap 2014 to pre boom years (=> investment gap disappears).

Difficult to believe? Look at capital output ratios!

More investment needed? Capital/output already high in EA => returns low (falling)



More investment?

- High capital/output ratio denotes low productivity of investment.
- Particularly in Italy.
- Moreover, given high capital/output ratio more investment today means less tomorrow (impact on demand temporary).
- => Not more but different investment, need structural change in financial markets, especially banking system, more equity, etc.

Key remains stronger consumption! But how?

The Ageing champions: Capital/Potential Output