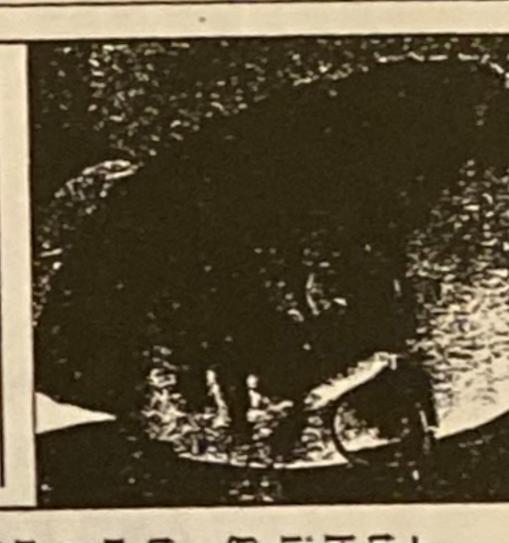
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economists believe British economy for a long time. Some _ow investment hallmark of the has been

of the their post-war success to high investnot matter. They Some economists argue that this does fits of investment

Low investment has been a hallmark

British economy for a long time.

s wrong. The bene-

are beyond dispute.

Gerard Lyons They are argues not to their high labor now experiencing problems this is due of living. While both economies are higher trend grow to deregulate; but produce high-quality goods, enjoy higher trend growth and high standards ment they would be in worse shape. ur costs and the need for their high invest-

matter.

this does

ment, allowing them to develop and

Germany and Japan owe much of

wrong,

higher demand will trigger a rebound in investment. It should, but there is no guarantee it will. in interest rates and taxes feed conomic A key question is whether consumption, as previous cuts growth over the next be led by higher

turing sector fell sharply during the recession, declining 25.8% between turing sector fell tive position and the high profits is still a sizeable ment rebounded manufacturing enjoyed by the corporate sector. Indeed, momentum, desp seen at the height fallen by 6.8% in There is no sign i 1989 and 1993. A Capital expenditure by the manufacsector investment has the last two quarters. t is about to gather ite the UK's competiof the Lawson Boom. n the last two years, it Ithough such invest-5% below the level

swings in monetary policy and high interest rates. Witness the doubling in base rates from 7.5% to 15% during the Lawson boom years. Such experiences undoubtedly force common explanation is Britain's poor inflation record, which has led to sharp different factors are important but the companies to require a higher risk pre-mium; they need to see a high rate of goes ahead. return before an investment project

low, hence lowering the cost of capital They need to be convinced that inflawhy firms are reluctant to invest now. This could be one explanation as to

in's investment level is

are able to compete globally. The trouble is, we don't have enough investment throughout the economy. Why is this?

After all, British firms invest heavily low, those industrial, service and financial sector companies that have invested

overseas, whilst many foreign firms, Britain's competitive position in Europe. particularly from Japan, are heavy investors in the UK, taking advantage of

Two years ago, a Bank of England survey of 250 firms found, on average, they demanded an incredibly high rate required was 20%, over three years. This is an excessively high target and poses a ment. The average nominal return Why are these rates so high? Many before they would undertake an investof return and over a very short time firms, who to the capital markets enjoyed by large em is particularly acute for smaller

areas may take preference, particularly ronment, investment in cost cutting the story. Quality and developing new products are very important too. development, where the gains take longer to be seen, could be delayed. as the gains can be seen immediately. competitive is important, it is only half Meanwhile investment in research and Whilst cost In the current disinflationary envicutting and remaining

This has already attracted inward investdespite uncertainty over the single cur-rency. But it begs the question as to why ment. Such There are two lessons. The first is the investment will continue,

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longer-term

returns it will remain a big hurdle to a companies. but also the limit not only the level of investment, full recovery in investment, as it would If firms continue to demand high type of investment.

current environment, which is

needs an incentive to do so. favourable for investment, then it

investment doesn't pick up significantly then the rebound in consumption over the next year could result in ment takes place is far less than the recovery requires higher investment today, gone tomorrow. A sustainable another fool's gold recovery: here with firms showing faith and confidence in the economy's potential. It is the only way. The price of ensuring that invest-

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International

and uncertainty about future monetary policy, before investing.

we cannot invest more ourselves.

Thus the second lesson is important.

There is another explanation: short-termism. The City is often blamed for to quantify this effect but there certain-ly is a problem with not enough focus directed on the longer-term. The probdividend payments, and steer clear of firms reward shareholders with high this. Worried by the threat of takeover, investment. It is difficult We cannot rely just on price competi-tiveness. Just look at the south-east cial sector.

also it will encourage new investment. If industry is reluctant to invest in the against this is that the general public subsidises investment that would have taken place anyway. This is true, but the latter is to offer tax advantages for longer-term investment. An argument One way for the authorities to ensure

do not have the free access

in the manufacturing, service or finan-

areas of the economy, whether they be Asian economies. Like them, we need to invest heavily, particularly in education, the infrastructure and value added