Business Investment

4.1 THE ROLE OF BUSINESS INVESTMENT

As the preceding chapters have shown, investment in education and different types of public and social capital are of key importance for future prosperity and inclusion. This chapter turns to private investment, in particular business investment. In recessions, private investment usually declines sharply. The economic recovery and the medium- to long-term prospects of companies and the economy as a whole depend strongly on the ability and the willingness of firms to invest. For many firms, recessions are periods where production capacities are not fully used. While this is a disadvantage, it may also offer an opportunity to innovate. For instance, if more time is available in a recession because current business is slow, firm owners and employees may use that time productively to think about the sustainability of their business model, invest in research and development as well as training for acquiring new skills, and prepare for the economic recovery. Once recovery is in sight, companies may need to increase their investment spending to implement the new plans developed during the downturn. However, all of this is only possible if companies have the resources to make investments despite the recession.

In addition to its importance for achieving an economic recovery in the short term, business investment is also key for long-term economic growth and productivity. During the years of the financial crisis, investment in Europe declined and remained weak for a long time. Therefore, the view is widespread that Europe needs to do more to attract and encourage investment.

The insight that a sustained recovery from an economic crisis requires investment is not new. In 2014, European Commission President Jean Claude Juncker argued that the economic recovery from the financial crisis and the European debt crisis was held back by insufficient investment:

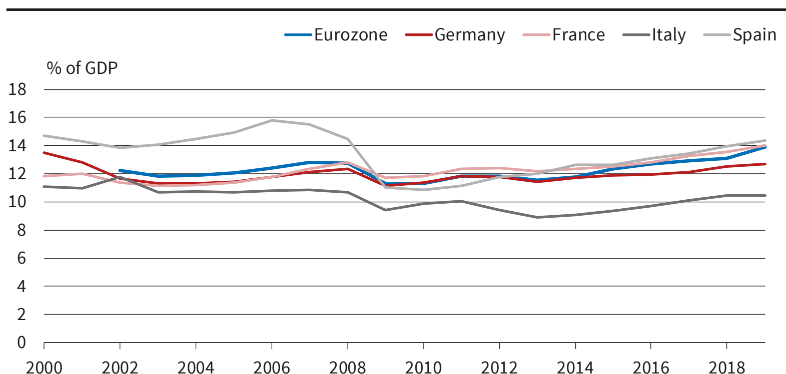
> "… not only are we faced with a serious investment gap; we are caught in an investment trap. When I talk to investors, they all agree that Europe is an attractive place to invest in. But then I look at the figures, they tell a different story: investment levels in the EU are down to EUR 370 billion below the historical pre-crisis norms. While investment is taking off in the US, Europe is lagging behind. Why? Because investors lack confidence, credibility and trust" (Juncker 2014).

As a consequence, Jean Claude Juncker made supporting investment in Europe a central part of the political agenda of the European Commission, leading to the Juncker Plan, which aimed at mobilizing EUR 315 billion for additional public and private investment in Europe. Whether the Juncker plan was a success or a failure is disputed,[1] and measuring its impact is not easy because estimating how investment would have evolved without the plan is challenging. But as will be discussed below, it is a fact that overall private investment has recovered between 2014 and 2019.

In coming years, Europe may easily find itself in a similar situation. The recession caused by the coronavirus pandemic differs in many ways from the financial crisis; at the same time, it cannot be taken for granted that investment will recover quickly, given the fallout of the crisis. A recovery of investment is required to generate economic growth, and without substantial growth it will be difficult to overcome the current crisis, in particular to deal with the high levels of public debt accumulated during the recession. This raises the question of whether economic and fiscal policy can and should support investment and if so, which instruments should be used.

This chapter is structured as follows. The next section describes how business investment in Europe evolved before and during the coronavirus crisis. Section 3 discusses policies aimed at supporting investment during the crisis. Section 4 turns to medium- and long-term perspectives for business investment. Section 5 concludes.

Figure 4.1
Business Investment

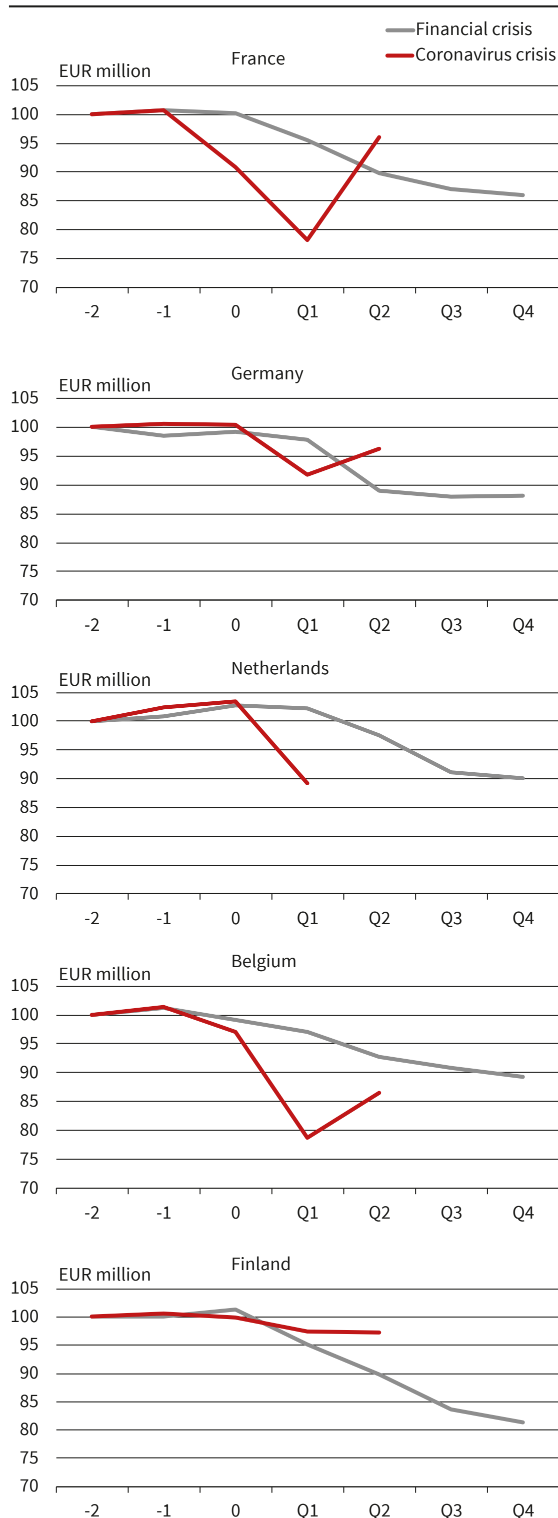


Source: Eurostat (2020). © CESifo

4.2 HOW HAS INVESTMENT EVOLVED BEFORE AND DURING THE CORONAVIRUS CRISIS?

[1] While the European Commission concluded, perhaps unsurprisingly, that the plan was a success, claiming it created 1.1 million jobs and increased EU GDP by 0.9 percent in 2019 (European Commission 2020), the European Court of Auditors (2019) argued that these claims were overstated and concluded changes had to be made to ensure the success of the plan.

Figure 4.2
Private Sector Investment Spending: Financial Crisis vs. Coronavirus Crisis



Notes: Quarterly data, starts Q1 2008 (financial crisis) and Q3 2019 (Coronavirus crisis).
Source: OECD (2020a).
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In Europe, the decade before the coronavirus crisis was marked by the fallout of the financial crisis and the Eurozone debt crisis. It is a widely discussed fact that investment declined throughout Europe during the financial crisis and then recovered, but only slowly. Figure 4.1 illustrates the development of business investment as a percentage of GDP over the last two decades for the Eurozone as a whole and selected member states. The most striking decline in investment during the financial crisis took place in Spain, where business investment fell from 15 percent of GDP before the financial crisis to 11 percent in the years 2009-2011. Investment declined much faster than GDP. However, until 2019, investment recovered and reached a level just under 15 percent of GDP, approximately the level before the financial crisis. In France and Germany, investment also recovered. This is also true for Italy, albeit to a lesser extent. In the Eurozone as a whole, business investment reached almost 14 percent of GDP in 2019, more than in any year since 2002.

Of course, the steady increase in business investment in the Eurozone came to an end in 2020. The recession caused by the coronavirus pandemic has induced firms to spend less. How drastic is the decline? Figure 4.2 illustrates the development of quarterly investment spending for several European countries in the second half of 2019 and in the first three quarters of 2020. While investment has dropped practically everywhere, the extent of the decline is very different across countries. The decline in investment in France and in particular Belgium was much more severe than in Germany and the Netherlands. Investment in Finland has remained almost unchanged. This reflects that these countries were affected differently by the pandemic and, accordingly, had different shutdown intensities. But other factors play a role as well. These include different stimulus policies aiming at stabilizing the economy as well as different sectoral and corporate structures.

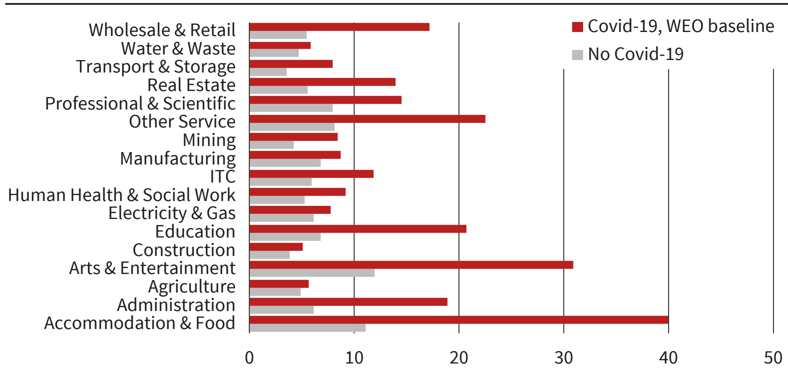
Figure 4.2 also compares the development of investment spending in the coronavirus crisis with investment during the financial crisis 2008 and 2009. In all countries considered here, the decline in investment in the financial crisis was more gradual, but it continued over many quarters. During the coronavirus crisis, the sharp decline in the first and in particular the second quarter in 2020 was followed by a notable recovery in the third quarter of that same year. This is certainly a consequence of the fact that many projects were simply interrupted during the shutdowns in the spring. However, whether the recovery of investment will continue in the fourth quarter is an open question. The second wave of the pandemic has led to a second round of shutdowns. This is likely to slow down economic activity in general, including investment. At the same time, the improved prospects for a vaccine will boost confidence and probably investment spending as well.

Which sectors and which types of firms contribute most to the decline in investment? It is a key characteristic of the coronavirus crisis that it affected different sectors of the economy as well as companies within sectors very differently. While travel, tourism,

Figure 4.3

Share of Jobs at Risk in Small and Medium-Sized Enterprises in Different Sectors

Policy scenarios

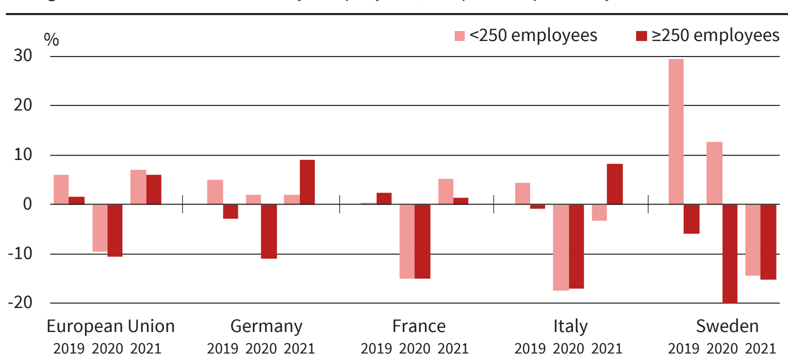


Source: IMF (2020). © CESifo

Figure 4.4

Investments and Investment Expectations in Manufacturing Industry

Change in the value of investments by company size, compared to previous year

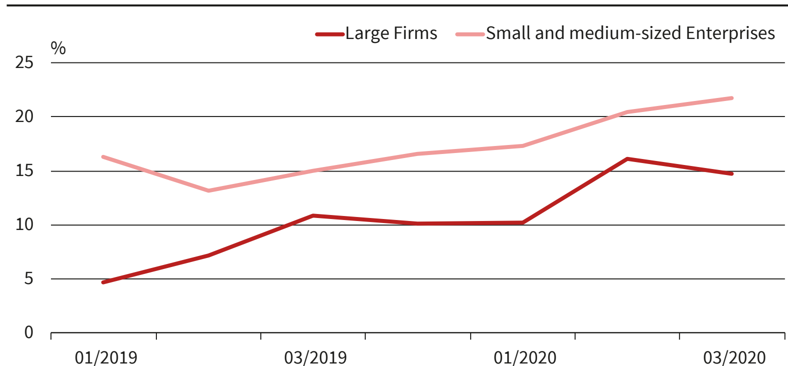


Source: EU Investment Survey, Oct/Nov 2020. © CESifo

Figure 4.5

Share of Firms Reporting Banks are Restrictive in Providing Credit

Germany



Source: ifo Institute Business Surveys. © CESifo

certain types of retail, hotels, restaurants and cultural events were hit very hard, other sectors of the economy were much less affected or even benefited, the last including in particular sectors and companies with digitized business models. Regarding types of companies, the concern is widespread that in particular small- and medium-sized companies (SMEs) will find it difficult to deal with the crisis because their financial reserves as well as their access to financing is often more restricted than that of large companies. This applies in particular to SMEs operating in the sectors mostly affected by the crisis. The IMF estimates that in some sectors up to 40 percent of all jobs in SMEs are at risk, four times as many as in a scenario without the crisis (see Figure 4.3).

What does this imply for investment? It is plausible that the more limited access of SMEs to financing will imply that they find it more difficult to maintain investment during the crisis. So far, little disaggregate data on business investment after the outbreak of the crisis is available. The survey data from European companies summarized in Figure 4.4 suggests that the impact of the crisis on investment of small versus large companies is rather different in different countries. The EU average suggests that the impact on small companies is slightly larger because the decline in investment small firms expect in 2020 exceeds that of large firms.

However, this pattern does not apply to all countries. In Germany for instance, the decline in investment expected by the firms in 2020 is much stronger for large companies. This is not necessarily incompatible with the view that SMEs are more often credit constrained than large firms. Large firms may reduce their investment for reasons other than credit constraints.

This is confirmed by the data in Figure 4.5. It illustrates insights from survey data for German firms about credit negotiations with banks. During the crisis, a growing number of firms of both types reported to have applied for credit (not reported in Figure 4.5). The share of firms experiencing a restrictive position of their banks in these negotiations is larger for SMEs compared to large firms, both before and during the current crisis. But during the crisis the gap has become larger. While banks have become less restrictive in providing credit for large companies in the third quarter of 2020, SMEs have experienced an increase in restrictions.

The observation that SMEs face greater financing difficulties when credit conditions tighten is a pattern which is well known from earlier crises (see e.g., Artola et al. 2011).

Overall, this data suggests that, in terms of economic policy responses, governments should worry about the impact of the crisis on all types of firms, not only the smaller ones, even if the smaller firms are widely seen to be more vulnerable to financing constraints.

4.3 PUBLIC POLICIES AND BUSINESS INVESTMENT DURING THE CRISIS

How should economic policy react to the issue of declining business investment in the current crisis? The appropriate policy depends on the reason for subdued investment. If companies do not invest because they are liquidity constrained or other aspects of capital markets are not working properly, a case can be made for government intervention in

capital markets. Direct loans by state-owned banks, loan guarantees or equity injections are widely used instruments. Many countries have used these instruments after the outbreak of the coronavirus crisis. The IMF reports that the advanced economies in the world have made available financing support to companies in different forms, amounting to 11 percent of their GDP (IMF 2020, p.4). It should be noted, though, that financial support in the form of loans may not be enough. If companies are over-indebted, many need equity rather than debt to avoid bankruptcy. In this case, one would expect private creditors to restructure the company's debt through haircuts on loans or by converting debt into equity. However, in times of crisis, this may be difficult. In particular, corporate debt restructuring may create problems for banks. Therefore, private debt restructuring may be considered too risky during a recession. Even if there is no threat of bankruptcy, high levels of debt may prevent firms from investing and developing properly because of the debt overhang problem.

Limited access to finance and debt overhang are not the only reasons why investment may need public policy support during a crisis. To some extent, launching an economic recovery is a coordination problem. If enough companies in the economy expect the recovery to begin and therefore start spending more to invest and build up inventory, these very actions may trigger economic recovery. In contrast, if all companies expect the recession to continue, it probably will because firms spend little and do not hire workers. Given this, fiscal policy may be needed to kickstart a recovery.

Which instruments are available to governments, besides the direct provision of loans, credit guarantees or equity? Tax policy offers other instruments. One way of providing financing through the tax system is to introduce accelerated depreciation or even immediate write-offs for investment spending. This can facilitate investment, but mainly occurs through improved incentives to invest. Whether accelerated depreciation helps credit-constrained firms in an economic crisis is less clear because it will only lead to immediate tax savings if the firm is profitable and if the impact of accelerated depreciation on taxable profits affects current tax payments. However, in a crisis, many companies incur losses. In addition, accelerated depreciation is not very targeted and benefits all companies that invest, even those who are not affected by the crisis. As explained above, it is an important characteristic of the coronavirus crisis that it affects different firms and sectors very differently.

A more effective and targeted instrument for supporting firms is an extension of tax loss carryback. If firms can set losses incurred in 2020 against taxable profits made in 2019, they can be given an immediate tax rebate, which provides liquidity and boosts equity. It is also a very targeted instrument because it only applies to firms incurring losses in 2020 but which were profitable and paid taxes in 2019. Just as with accelerated depreciation, the advantage of loss carryback is that its fiscal cost is relatively small. Without loss carryback, losses incurred in 2020 would be carried forward and reduce tax payments in future years.

Many countries allow firms to set current losses against past profits only to a limited extent. Others allow losses to be carried forward only. For instance, before the crisis, loss carryback in France and Germany was allowed for one year only and only up to a maximum of one million euros. During the crisis, the ceiling was lifted to five million euros, which still excludes many medium- and large-sized firms. As a response to the crisis, loss carryback was also extended in the Czech Republic, Norway, Poland and the United States (OECD 2020b, p.15).

One objection against providing financial help to firms states that this help should not go to firms that use international tax planning opportunities to avoid paying taxes. Poland, France, Denmark and Belgium have introduced legislation to deny crisis support to companies with a presence in certain tax havens (CNBC 2020). Companies that avoid taxes during boom times and apply for tax-financed support during the current crisis, for example, should be criticized. However, denying them help seems difficult to implement in reality. As long as international tax planning takes place within the rules of the tax law, it seems problematic to exclude firms from support just because they have a presence in a country classified as a tax haven, a perfectly legal activity. In this regard, the choice of support instruments may again be important. For instance, extending tax loss carryback only helps firms that have paid taxes during the previous year. Those who have shifted their profits to other countries do not benefit. In this case, no special measure to exclude firms with aggressive tax planning are needed.

Another concern about measures providing liquidity to firms during times of financial crisis is that this support may help firms who do not have a viable business model. This is referred to as the zombie firm problem. Keeping these firms alive may not only be a waste of tax money, and may also undermine the development of viable firms by keeping valuable resources such as capital or employees away from them. While the zombie firm problem is a drawback for policies supporting firms during economic crises, its policy implications are not straightforward. The main challenge is that, in times of crisis, which are characterized by exceptional circumstances and high uncertainty, it is difficult to determine which firms are viable and which are not. One way of trying to avoid supporting zombie firms is to make support conditional on private investors or banks bearing part of the risk; this is one of the reasons why loan guarantees typically cover less than 100 percent of the loan,

so that some risk is borne by banks. Including private investors has the advantage that these investors have strong incentives to pick the right firms. In addition, they may have better information about business projects of particular companies than decision makers in the public sector. But in principle, private investors face the same uncertainty as the government. In addition, some types of private investors may have distorted incentives. For instance, undercapitalized banks may support firms without viable business models in order to avoid loan write-downs.

It should also be noted that different policy instruments have different implications for the zombie firm problem. In the case of extended loss carryback, the fact that this instrument only helps firms that were profitable before the crisis also reduces the risk of supporting non-viable firms. To avoid supporting firms that incurred losses long before the crisis, the carryback period might be limited to one or two years.

To what extent the support of zombie firms deprives healthy firms of important resources is an open question. Schivardi et al. (2020a, b) discuss the zombie firm problem and investigate the impact of zombie lending by undercapitalized banks during the financial crisis. They find that during the Eurozone financial crisis, undercapitalized banks were indeed less likely to cut credit to non-viable firms. In addition, credit misallocation increased the failure rate of healthy firms and reduced the failure rate of non-viable firms. These results imply that the zombie firm problem is real. However, these studies also find that the adverse effects of credit misallocation on the growth rate of healthier firms were negligible, suggesting that for healthy companies, the adverse consequences of lending to zombie firms may not be as important as sometimes suggested in policy debate.

Ultimately, it is unavoidable that governments that provide financial support to companies in a crisis will also support some firms that do not have viable business models. This is the price to be paid for stabilizing the economy as a whole.

Overall, a strong case can be made for providing financial support to firms so that they can keep up investment, which is important both for kickstarting a recovery and for maintaining productivity and the ability to innovate in the medium and long term. In this context, governments should use instruments that allow it to concentrate as much of the support as possible on high quality investment of firms with viable business models. Loans and loan guarantees where private investors bear part of the risk are such an instrument, extending tax loss carryback is another.

The potential for undesirable support of zombie firms is larger if governments go beyond these instruments. One example is government support in the form of equity, which is often used to support large firms, in particular, firms considered to be of national importance. For instance, the German government provided financial support through the acquisition of an equity share in Lufthansa of EUR 6 billion. In addition, the government provided loans amounting to EUR 3 billion. Along the same lines, the French government has provided support to Air France and Italy intends to provide financial help to Alitalia. These airlines are not necessarily typical zombie firms—although some of them have had difficulties for some time. Their business model will not disappear entirely. But it is plausible that the sector will need to scale down its size because demand in particular for business travel is expected to decline after the coronavirus crisis, which implies that the airline sector will need to consolidate, raising the question of whether the consolidation process will take place under conditions of fair competition. Understandably, other airlines who do not receive help from their governments do not think so and complain. For instance, with respect to Lufthansa, Ryanair CEO Michael O'Leary stated:

> "This is a spectacular case of a rich EU member state ignoring the EU treaties to the benefit of its national industry and the detriment of poorer countries."

Since the market for air travel is far from being a perfectly competitive market where firms are price takers, support provided by one country to domestic companies may have a significant and direct negative impact on firms located in other countries. If these firms do not receive support, competition is distorted. If they do, there is a risk of a subsidy race where all countries use taxpayer money to maintain capacities that are no longer needed. This is a case where, as a consequence of government support, more investment takes place than is desirable, i.e., in a shrinking sector. It would be better to invest this capital in other sectors.

From a European perspective, it is important to avoid these harmful subsidy races. In principle, this is the task of state aid rules that are enforced by the European Commission. Of course, for the European Commission, deciding during a deep recession whether countries are allowed to support companies involves difficult trade-offs between the correction of capital market failures in times of economic stress and a potential distortion of competition.

While generous financial support to companies may thus be harmful, especially from a European perspective, another important issue is that not all EU member states may be able to support private investment where it is desirable. Member states with higher debt levels may be reluctant to do so. Given this, it would have been helpful to make solvency support measures an important part of the Next Generation EU Fund (NGEU). At least the European Commission should encourage member states to make these meas-

ures part of the recovery plans they submit when they apply for funding from NGEU.

4.4 BUSINESS INVESTMENT IN THE MEDIUM AND LONG TERM

While the European Union and its member states focus on recovery from the crisis in the short term, they should not neglect the medium- to long-term perspectives for business investment. Servicing the high levels of public and private debt incurred during the crisis and creating new jobs for those who have lost the old ones will require economic growth. To achieve this, Europe needs corporate investment. What does Europe need to do to encourage investment in the medium and long term? The factors determining investment are complex, they differ across sectors and they are not the same for firms of different sizes. In addition, not all relevant factors can be changed easily through economic policy measures. For instance, whether a country is able to attract investment depends on its geographical position, the size of its internal market, on its climate, the availability of workers or the stability of its institutions and its political system. But none of these factors can easily be changed, certainly not in the short term. In comparison, taxes or access to credit may be less important, but these factors can be changed quickly.

What are the factors that may prevent companies from investing in Europe? Figure 4.6 shows the results of surveys carried out by the European Investment Bank at the end of 2019 and 2020.

The three most frequently cited barriers to investment are general uncertainty, the (non-) availability of skilled staff and business regulation.[2] This applies to both large-, small- and medium-sized firms. Perhaps surprisingly, the differences across firm sizes are small. Other factors attracting a lot of attention in the policy debate—such as the availability of finance and transport and digital infrastructures—seem to be obstacles for a smaller number of firms. However, in terms of economic policy, this does not mean that these factors are not important. If they can be changed at low costs, public policy may even see them as a priority. In fact, most of the items cited in Figure 4.6 can and should be influenced by economic policy. In some cases, this is possible only in the medium and long term, but others can be changed quickly. A policy aiming at improving conditions in Europe should tackle all of these issues.

The differences in the results of the 2019 and 2020 surveys show that the coronavirus crisis does affect the perception of barriers to long-term investment. It is plausible that, as a result of the crisis, general uncertainty, the availability of finance and demand for products are more frequently seen as barriers to investment while the availability of staff, energy costs or infrastructures are perceived as less important. Nevertheless, the overall priorities have not changed much.

Climate protection is widely seen as a key driver of future corporate investment. Figure 4.7 illustrates results from survey questions about factors preventing companies from investing to tackle climate change. The data are only available for 2020.

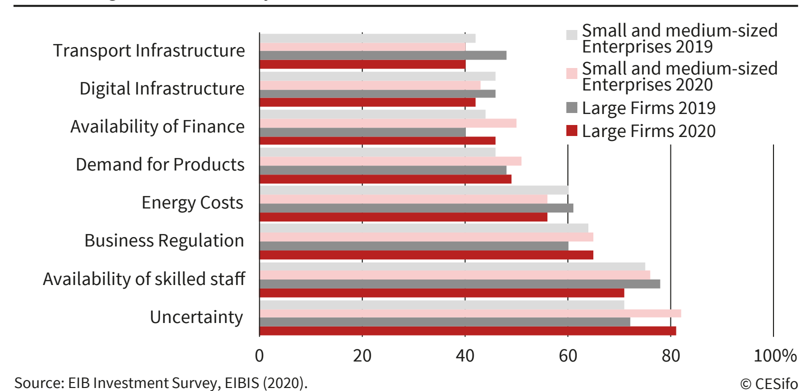
The key result is that uncertainty about future regulation and taxation related to climate change is the most important obstacle to investment. This is plausible because, for instance, the return on investment in low carbon will depend strongly on the future carbon price, which is set politically. The role of policy uncertainty suggests that the European Union and its member states could contribute significantly to more investment by agreeing on a credible medium-term strategy for climate protection policies and in particular the carbon price.

The emphasis on regulatory uncertainty also points to the fact that there is a tendency in Europe to extend government intervention in private investment decisions, in particular in the context of efforts to transform the economy towards more sustainable and climate friendly structures. While more sustainability and climate protection are widely supported objectives, there is a danger that overly dirigiste and

Figure 4.6

Long-Term Barriers to Investment

Firms stating, that these are major or minor investment obstacles

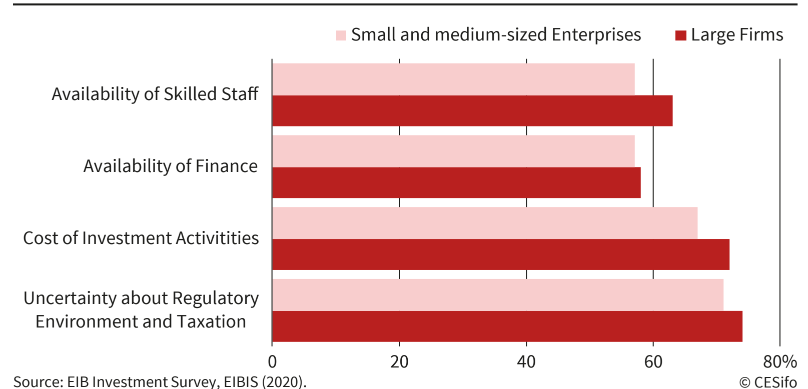


Source: EIB Investment Survey, EIBIS (2020). © CESifo

Figure 4.7

Barriers to Investing in Activities to Tackle Climate Change

Firms stating, that these are major or minor investment obstacles



Source: EIB Investment Survey, EIBIS (2020). © CESifo

[2] Also see the discussions in the previous chapters, i.e., on the need to remove barriers to firm creation in Chapter 2 and the discussion on skills in Chapter 3.

uncoordinated policy interventions undermine the efficiency of investment in this area. For instance, the taxonomy for sustainable finance uses complex administrative and political procedures to classify economic activities according to whether they support sustainability goals like climate protection (see EU Expert Group on Sustainable Finance 2018). The next step is to steer capital flows into activities classified as sustainable or "green." This approach is based on a central planning philosophy incompatible with the market-oriented idea of achieving efficient climate protection through carbon pricing.

Similar concepts for state planning in corporate investment are gaining political support in industrial policy. As a result of the crisis, the idea has emerged that international value chains are vulnerable, and companies should be incentivized to reduce international outsourcing. While it is justified to ask for better preparation to deal with future pandemics, which may require more domestic production of medical goods like masks or respirators, calling for a general winddown of border crossing value chains would be highly counterproductive. First, companies will themselves reconsider the trade-offs between production costs and vulnerability of value chains. Second, reducing vulnerability may require more, not fewer, international value chains. If all production of a key input is concentrated in one country, be it at home or abroad, vulnerability to shocks will be greater and more likely than in a situation where production of that input is more diversified and is available from many countries.

Warning against misguided intervention in markets is not the same as asking for general deregulation. Rather, the challenge is to develop regulation that allows market processes to fully develop their potential in terms of generating efficiency and innovation. Digitization is one area where this is particularly important. In an increasingly data-driven economy, fostering investment requires effective policies for data use and data sharing; at the same time the greater role of economics of scale and network effects in the digital economy highlights the importance of effective competition policy.

Currently, due to the impact of the economic crisis, much emphasis is placed on the role of the public sector in directly steering and supporting investment in selected areas like digitization and climate change. This is also the focus of the recovery fund NGEU. However, to be successful in fostering investment and growth in Europe, a much broader strategy is needed, and a strategy with more emphasis on market processes and competition.

Probably the most important factor for attracting investment to Europe is the potential of the European internal market, which gives access to both factors of production and customers. This implies that deepening the European internal market should be a key priority in coming years. Capital market union, which is the integration of the national markets for banking services and equity capital in the EU, would reduce the cost of financing and facilitate access to equity capital as well as venture capital. As mentioned above, many companies will emerge from the crisis with high levels of debt. For them as well as for newly created firms, better access to equity capital is now even more urgent than it was before the coronavirus crisis. It is also important to maintain economic integration between the EU and the UK as far as possible. The fact that a hard Brexit has been avoided is a first step, but much remains to be done in this regard.

4.5 CONCLUSIONS

Recessions usually go along with a decline in business investment. This is also true for the coronavirus crisis. Private investment decisions in crises are likely to be partly suboptimal from the perspective of the economy as a whole. There is a strong case for public policies to support investment. The suitable instruments for providing this support include loans and government loan guarantees. However, loans may not be enough if companies are already highly indebted. In this case they may need external equity. This should normally come from private investors, either through an injection of external equity capital or through debt restructuring, but that may be difficult to achieve in the middle of a crisis.

The tax system offers other options to support firms in crisis situations. Loss carrybacks are an effective and targeted instrument and should be used more widely. The effect is similar to a temporary injection of equity into a firm. Since extended loss carryback reduces losses carried forward, their fiscal cost is low. Accelerated tax depreciation allowances also encourage more investment, but without loss carryback, they only have an impact on currently profitable firms. These firms are not those where government support is most urgent.

An important drawback of public support for companies is that it may keep firms alive which are not viable in the long term, giving rise to "zombie firms."

To reduce the risk of supporting zombie firms, governments should prefer loan guarantees where part of the risk is borne by private investors such as banks. Loss carrybacks should be limited to one or two years to avoid supporting firms that incurred losses long before the crisis.

From a European perspective, there is a danger that national governments could possibly provide excessive financial support to large firms considered to be of national importance. Given that these firms often operate in imperfectly competitive markets, there is a danger that national support policies neglect negative externalities on companies in other countries. Preventing harmful subsidy races is a task of EU state aid control. In times of crisis, it is justified

to allow member states to provide more support to the economy, but in the case of very large companies, the European Commission should not relax the restrictions by too much or too long.

At the same time, there is a risk that some EU member states do not provide support to their firms even where it is desirable; this is an issue in particular for highly indebted countries. The European institutions should place emphasis on making liquidity support available in particular in countries where no national programs exist, and should focus on small and medium sized companies. The European Commission should encourage member states to include liquidity support programs in the national recovery plans they submit to receive funds from NGEU.

While the support of investment during the crisis is important, it is time for European policymakers to turn their attention to fostering investment in the medium and long term. To deal with the legacy of the crisis, in particular the high level of public and private debt and to compensate for the job losses, Europe needs dynamic economic growth. This will only be achieved if companies find it attractive to invest and create jobs in Europe. Economic policy can contribute to this, not through misguided dirigisme but by reducing policy uncertainty and through regulation that enables market processes to develop their full potential in terms of generating efficiency and innovation.

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