Economic growth in Europe remains disappointing. Virtually all European Union members are expected to post higher output in 2014; but, according to the International Monetary Fund's latest projections, the average growth rate in the eurozone will barely exceed 1%. And, whereas the British economy is displaying strong momentum, its GDP has only now surpassed the pre-crisis mark. In *per capita* terms, the EU is still poorer than it was seven years ago.

In this context, a new policy target has emerged: investment. Italian Prime Minister Matteo Renzi, who currently holds the EU's rotating presidency, has pushed for it, and Jean-Claude Juncker, the president-elect of the European Commission, has called it his "first priority." His goal for the next three years is to mobilize an additional €100 billion ($134 billion) per year (0.75% of GDP) for public and private investment.

Investment is certainly a politically appealing theme. It can unite Keynesians and supply-side advocates; proponents of public spending and supporters of private business can stand together. And historically low long-term interest rates undoubtedly provide an exceptionally favorable opportunity to finance new ventures.

But it does not automatically follow that governments should pour money into public infrastructure projects or foster private investment by adding further incentives amid already auspicious market conditions. At a time when private income has shrunk, public resources are scarce, and debt burdens are heavy, plans to stimulate investment should be carefully scrutinized.

Even seemingly purposeful projects can seriously backfire: only a few years ago, Europe's well-intentioned efforts to stimulate renewables resulted in a solar energy bubble of macroeconomic proportions. Whereas cutting greenhouse-gas emissions is necessary, the current generation of relatively inefficient renewables should not be deployed at the expense of the development of more cost-effective technology.

That is why it is essential to determine, prior to any effort to boost investment, whether sluggish growth in Europe reflects abnormally low capital formation. The data suggest that it does: from 2007 to

2013, investment has fallen by 18% in the EU, compared to just 6% in the United States. In Southern Europe, investment has literally collapsed; even in Germany, it will reach pre-crisis levels only this year.

But this is hardly a sufficient observation, because excessive pre-crisis real-estate investment made a sharp downward adjustment inevitable. The reckless construction of condominiums without buyers and airports without passengers had to stop. More generally, investment tends to follow economic growth: companies add new capacity only if there is demand for their products. A recession almost always implies a disproportionate fall in investment.

For these reasons, determining whether low investment is a cause or a consequence of slow growth is not as easy as it may seem. Taking push and pull factors into account, DIW, the German economic institute, reckons that the investment gap is real; for the eurozone, it puts the gap at about 2% of GDP, or €200 billion. That is a significant number, which suggests that there is a case for policy action.

That raises the next issue: what impedes investment, and what can be done to remove such obstacles? Part of the answer concerns regulation. For example, investment in efficient energy production and conservation is being held back by pervasive uncertainty about the future path of climate policies. A European agreement on how to stabilize the price of carbon would help to catalyze private projects. At the national level, well designed, stable schemes to improve domestic heating efficiency would also be helpful. More generally, regulatory clarity and predictability are essential to private investment.

The answer is also partly financial. In Europe, the pre-crisis boom in real-estate investment was fueled by reckless credit flows from Northern to Southern Europe. Credit rationing has followed, as banks reduced their overburdened balance sheets and were discouraged from risk-taking. Moreover, money has flowed back to Northern Europe from the distressed periphery. As a result, credit for, say, a small Spanish company is neither cheap nor abundant.

This calls for immediate action. Packaging existing loan portfolios and offloading them to non-bank investors, as many have proposed, should be encouraged. Beyond short-term fixes, the main priority must be to encourage a resumption of savings flows across Europe, but this time in the form of equity, not bank deposits and loans. For this, Europe needs an adequate regulatory and tax framework. Official institutions could also be involved in a suitable way. Oddly, the European Investment Bank, the EU's financial arm, is authorized to provide only loans and guarantees, not equity investment. Substitutes should be found.

There are, finally, a few fields where national governments could act directly. Infrastructure is a case in point, provided that the current interest in investment projects is not used as an excuse to revive Europe's love for white elephants.

Will it be enough? It is hard to know. The EU faces a delicate balancing act between the need to foster investment and the need to remain cautious, especially with public money. Juncker, for his part, will need to display both firm resolve and sound judgment.