



Q&A

JACQUES DE LAROSIÈRE

Honorary President – EUROFI

The European paradox: despite abundant savings investment remains insufficient

Europe has no shortage of savings nor liquidity. What it lacks is productive investment. This observation should alert anyone wondering about the persistent weakness of growth and productivity on the continent. Monetary policies are once more showing themselves to be highly accommodating, and financing conditions have returned to being particularly favourable. And yet investment remains sluggish. This paradox is neither cyclical nor accidental. It is the result of repeated economic choices that have favoured short-term ease at the expense of the future.

A comparison with international peers is particularly eye-opening. This phenomenon is significantly less pronounced in the United States, where the economic and institutional environment remains more conducive to productive investment: lower tax burden on businesses, coherent and integrated single market for goods, services, and capital, increased energy independence, longer working hours and higher labour force participation rates, a better-educated population, sustained efforts in research and innovation, and less burdensome regulations and bureaucracy. These factors explain why investment, particularly in intangible assets, has held up better there than in Europe, where structural rigidities and market fragmentation are a long-lasting obstacle to risk-taking.

Recent data¹ highlight that the United States is actually on the cusp of reindustrialisation. Indeed, in 2025, the US captured 44% of global and industrial investment, which represented 26% of all projects volume-wise. One cannot underestimate this change for industrial investment in the United States has nearly doubled over the last year from USD 404 billion to USD 793 billion.

This paradox raises an obvious question: why have financial systems saturated with liquidity and exceptionally expansionary monetary policies not been able to generate a more robust investment environment? What if the answer lies precisely in this prolonged monetary abundance?

John Maynard Keynes had warned of the risk of a “liquidity trap.” When interest rates remain low for a long time,

they cease to effectively channel savings into productive investment. If the return on capital no longer compensates for industrial risk nor the long-term immobilization of funds, savings are funnelled into liquid, low-risk, and low-yield assets. When interest rates hover around zero or turn negative in real terms, the incentive to commit funds to long-term savings diminishes. This phenomenon is particularly pronounced in Europe, where households traditionally favour security over risk-taking.

For more than a decade, ultra-accommodative monetary policy has thus shortened the horizon for European savings. Savings are abundant, but increasingly liquid, volatile, and less oriented toward financing productive projects. This observation is now widely documented, notably by the work of the European Savings Observatory and the Bank for International Settlements.

However, this monetary policy cannot be analysed independently of fiscal policies. By allowing governments to finance themselves at real interest rates close to zero, easy money has encouraged chronic public deficits and delayed structural reforms. When borrowing costs nothing, budgetary constraints disappear and economic discipline fades away. Monetary easing has served as a substitute for reform, at the cost of a gradual weakening of the productive apparatus.

This shift towards consumption is not just a result of monetary excess. It is also a symptom of increasingly apparent “fiscal dominance.” The excessive debt levels of certain European countries has gradually led central banks to favour supporting public financing over the efficient allocation of capital. In such a context, raising interest rates in a sustainable manner would increase the cost of sovereign debt. Monetary policy is thus subordinated to budgetary imperatives, to the detriment of productive investment, employment, and productivity. This logic penalizes the real economy and traps Europe in sluggish growth. It is time to cautiously break out of this cycle.

This combination of highly accommodative monetary and fiscal policies has led to an increasing misallocation of resources, particularly in Europe. A significant portion

of savings is absorbed by public operating expenditures, bureaucracy, and redistribution mechanisms, the expansion of which ultimately discourages initiative and risk-taking. Liquidity in the banking and non-banking sectors has increased significantly, as has outstanding credit, without any real benefit to productive investment.

How can we explain why expansionary fiscal policies and abundant financing have not led to stronger investment momentum and sustainable productivity gains? Part of the answer lies in the liquidity trap. But the other, equally decisive factor is the growing rigidity of productive supply. When the productive apparatus lacks capacity, flexibility, and innovation, abundant liquidity does not translate into more investment or production, but rather into price pressures. Stimulus then fuels inflation rather than productivity.

This inelasticity of supply has been brutally exposed by recent shocks. Between 2021 and 2023, the recovery in demand has been hampered by a weakened productive apparatus that is unable to respond quickly. The return of inflation has thus highlighted long-standing weaknesses: underinvestment, deindustrialization and a loss of skills. It has also revealed the complete disregard for excessive monetary creation during this period. When the creation of money overtakes an economy's productive capacity, excess liquidity drives up prices rather than generating real growth.

Supply has become rigid because the savings horizon has been shortened, productive investment has been relegated to the background, structural reforms have been systematically postponed. Cyclical support policies have too often replaced policies aimed at sustainably strengthening productive capacity.

It is time to address this paradox at its root and put productivity back at the heart of the economic debate. This means rehabilitating structural reforms: making labour markets more flexible and reducing the burden on businesses—which implies cutting public spending—and developing pension funds capable of financing long-term investment. It is also essential to better reward long-term risks, rather than systematically penalizing them.

Europe should finally be more concerned about the flight of its capital to areas offering more attractive returns, rather than seeking a policy of systematically low interest rates. Low productivity gains are not primarily a question of new financial instruments or additional European debt. It is a fundamental question: why are there fewer projects and fewer companies capable of pursuing long-term productive ambitions?

The answer is clear. It lies in an economic policy that is too often focused on immediate relief and structurally unfavourable to productive supply, innovation, and investment in the future. A society that lives on the benefits of the present by sacrificing its future cannot prosper in the long term.

It is essential to react, but not by repeating the recipes that have led to the current impasse. Distributing more without restoring productive investment and economic discipline will only exacerbate imbalances. As Raymond Aron pointed out, “internal consolidation is a prerequisite for any successful international integration.” It is this imperative of responsibility and lucidity that Europe must now face if it wants to return to growth, economic sovereignty, and sustainable prosperity.

1. *Trendeo and McKinsey, « Baromètre annuel des investissements industriels mondiaux », 22 February 2026.*