

How Much Investment Does Europe Need for a Recovery?

by Lothar Komp

The ambitious Tremonti Plan for a dramatic increase of infrastructure investments in Europe has now been rudely reduced, so that, for the most part, only a small “growth plan” remains. The details were publicly presented by the European Commission on Nov. 11. According to them, this “rapid jump-start” program is supposed to get a total—through the year 2010—of 60 billion euros of investments for 56 projects in the areas of transport, energy, and new technologies: That means roughly Eu10 billion (about \$12 billion) per year.

Projects were chosen which could be quickly realized. At

the center, therefore, remain the Trans-European Transport Nets (TENS), in which Eu38 billion is supposed to be invested. Roughly another Eu10 billion is planned for investment in new energy grids which cross the borders of European nations; and finally, a further Eu14 billion for technology projects, among them the European satellite navigation system Galileo.

Credits from the European Investment Bank (EIB), and from the budget of the European Union (EU), are to provide Eu6 billion annually for this “miniature” of the Tremonti Plan.



One of the “TENS,” the cross-border high-speed rail corridors whose rapid completion is essential to Europe’s recovery and growth—without these, the ongoing EU expansion to 25 nations will end in fiasco. But the schedule shown here—to 2010, and the middle section not until 2020—is slowed further by the “Maastricht straightjacket” which shrank the European Commission’s new infrastructure investment plans.

For the remaining Eu4 billion per year, the European Commission hopes that private capital will be mobilized. According to Commission chairman Romano Prodi, this small funding will nonetheless be an “urgent and necessary catalyst for growth and employment in the broadened European Union.”

Now, there can be no doubt that such an urgent catalyst were necessary. But when Prodi claims that the “rapid jump-start” program of the EU can fill this role, one can’t help but think that his Brussels press conference may have been connected to certain [drinking] celebrations the same day in neighboring Cologne. For many of these projects were already decided matters in any case, and their combined dimension is simply nowhere near enough even to begin to solve the heavy economic problems of Europe.

What Is Really ‘Urgent and Necessary’

But what dimensions would really measure an effective infrastructure-investment offensive, by means of which the fundamental economic conditions could be changed for the better, and where Europe could take its rightful role in the construction of the Eurasian Land-Bridge? There are different ways to approach this question, and all of them lead to a similar result: We need new public and private investments in a volume which, for the expanded European Union as a whole, must amount to *hundreds of billions* of euros per year.

In the first place, there is a notorious deficit in infrastructure investment which has accumulated over the past decade’s exhaustion of public finances, and the austerity policies commanded by the Maastricht Treaty (see **Figure 1**). In the cross-border transport projects alone, according to a European Commission investigation—the Van Miert Report presented in June—this past deficit requires about Eu600 billion in investments.

Only if these primary transport arteries between the member nations of the European Union are completed as rapidly as possible and their missing sections built, can one imagine a Europe which is economically strong in its entirety. If these large and immediate investments in high-speed railroads, highways, and waterways are left undone, the expansion of the EU to the East will most surely end in a fiasco.

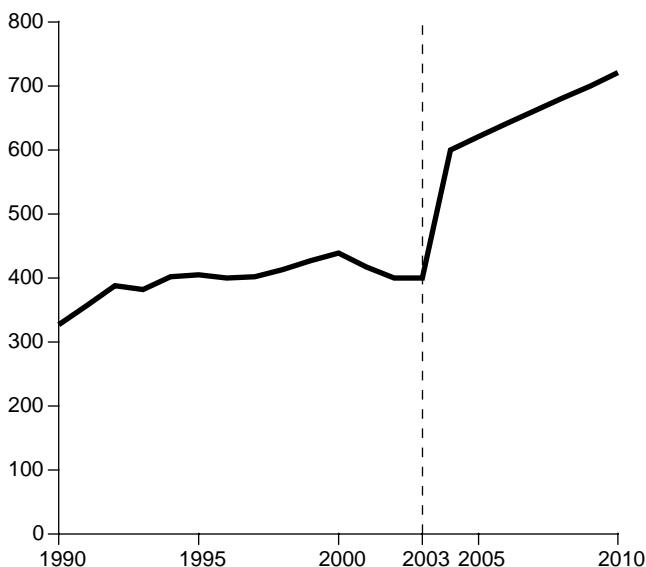
The so-called TINA networks—the cross-border transportation connections to and among the 10 new EU candidate nations of Central and Eastern Europe—comprise altogether 19,000 kilometers of roads, 21,000 kilometers of rail lines, at least 4,000 kilometers of inland waterways, 40 airports, 20 sea ports, 58 inland harbors, and 86 additional terminals; and everywhere, investments in renovation and rebuilding are necessary.

This is where the past deficits in national and urban investments come in. Germany faces a great burden in this regard. In the Federal transportation plan, investments are called for to the tune of Eu64 billion for railways, Eu77 billion for national highways, and Eu8 billion for national waterways by 2015. Altogether, this is an Eu149 billion

FIGURE 1

Germany: Gross Investments in Infrastructure, Made (1990-2003) vs. Required for Full Employment

(Billions of Euros)



Sources: Federal Statistical Office; EIR.

economic investment, which, were it carried out in Germany, would dwarf the European Commission’s little plan for all of Europe! Of this, Eu83 billion is necessary simply to maintain the current condition of the transportation network over the coming years.

Urban Infrastructure Bill Is Huge

Yet, the *urban* infrastructure-investment deficit in Germany is far more extensive than the national shortfall. In June 2002, the German Institute for Urban Studies (DIFU) published, from the data of the research bureaus of German state assemblies, an up-to-date study on the “infrastructure investment deficit” for the cities. In the United States, the Society of Civil Engineers publishes a similar “infrastructure report card” annually, which has exposed steady deterioration for years; the European situation is worse.

For the period 2000-2009, the DIFU calculated urgent investments to be made at Eu687 billion, of which Eu475 billion would be for the old states and Eu212 billion for the new states of eastern Germany. This would break down into: electricity, gas, and municipal heating, Eu42 billion; water treatment and environmental maintenance, Eu125 billion; streets and public transportation, Eu179 billion; social infrastructure such as schools, hospitals, and sports facilities, Eu129 billion; telecommunications infrastructure, Eu5 bil-



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lion; urban housing, Eu48 billion; and so forth. As with the Federal transport networks, the majority of these investments are needed just to maintain the economic infrastructure in its present condition, for most of it was built during the first three decades after World War II, and now threatens decay.

Thus, Germany alone faces a need for investments in national transport networks and urban infrastructure in excess of Eu835 billion. It is estimated that about one-fifth of the economic output of the expanded European Union will fall to Germany's share; so the overall European-wide investment required for these kinds of economic infrastructure could easily reach Eu5 trillion. To carry out such a recovery of growth and productivity, within ten years, would require investments of Eu500 billion per year.

Electricity grids are only a small part of this amount, and power production plants are not included in it at all. According to the International Energy Agency (IEA), by the year 2030, the European Union must invest some 2 trillion euros for combined energy infrastructure, of which Eu600 billion would be for power plants, Eu500 billion for the power grid,

and the rest for oil and gas. These are not luxuries, but merely the preconditions for not having the lights in Europe go out permanently. If we could accelerate this somewhat, because of the great modernization requirements in Eastern Europe, then European *energy infrastructure* would require another Eu100 billion of investment annually; and overall infrastructure, another 600 billion.

An Example from China

Now, investment has slowed down so much in the 1980s and '90s—not only in infrastructure, but also capital investment in business and industry—that we are unprepared for the future requirements of the economy. In the past year, gross capital investment in the European Union was about Eu1.77 trillion, which amounts to less than a fifth of the European gross domestic product (Eu9.16 trillion). Even as recently as the beginning of the 1990s, Europe's capital investment had still been typically about 25% of the GNP, while in Germany in the 1970s, it was around 30%. It is now of the utmost urgency, given the gigantic lack of investment in both infrastructure and investment capital, that European investment rise to 30% of the GNP. To reach that goal in an expanded Europe of 25 nations, the amount of capital that must be mobilized, even with a stagnating GDP, would be an additional Eu1 trillion per year on top of the present Eu2 trillion annually.

Finally, this order of magnitude of investment is necessary if the demand for full employment in Europe is to be more than an empty phrase. Without investment, there are no new job openings. As a rule of thumb for the building industry, each added billion euros in annual investment, creates about 25,000 new permanent jobs. If we wish to create enough jobs in Europe, to shift things so that unemployment (today officially about 18 million), will become the exception rather than the rule, then we must increase the annual investment by business, industry, and the government to Eu720 billion. Naturally this requires new credit mechanisms, such as those proposed by U.S. Presidential candidate Lyndon LaRouche, both on the international and national levels.

In China, such proposals have been realized in part. There, the central bank, in cooperation with a handful of state-level investment banks, are prepared to back up infrastructure with an annual equivalent of \$200 billion in credits, without China's having to go abroad for loans, or fuel domestic inflation.

Financing the necessary investments is a technical question, which can be solved provided that one is liberated from liberal ideology, and that the government shows sufficient resolve. One suspects that a more difficult problem to master is the problem of educating and training a million new engineers and many millions of added skilled employees for the construction sector and for industry, within a very few years. Clearly, the investment offensive will have to go hand in hand with an education offensive.