Session 19
Rebuilding Democratic States
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Improving a country's physical infrastructure tends to improve its economy. With better infrastructure comes faster, cleaner, and safer movement of people, goods, services, and ideas, thereby making an economy more efficient. Infrastructural investments also produce jobs, as infrastructure construction is labor-intensive. Projections generally suggest that sustained $100 billion+annual spending in European infrastructure should produce an annual GDP growth increase of 1-3% over the next decade. This is to say nothing of the safety and environmental benefits that come with improving infrastructure. So why are Europeans hesitant to invest in improving their own infrastructure?

There are two reasons why Europeans can be skeptical of investing in their own infrastructure, only one of which stands up to closer scrutiny. The first reason –which can easily be rejected– is that the money is not there for such projects. Although many European states are undergoing austerity measures as a result of the Euro crisis, it is estimated that there are trillions of dollars available in private investment. Private investors are looking for low-risk investments and public-private partnerships in European infrastructure should easily offer good returns with relatively low risk, all with negligible increases in government spending. Many states could also pursue infrastructure investments without relying on private capital, as the anticipated returns on infrastructure should stimulate greater economy and therefore greater government revenues. The European debate over greater investments in infrastructure perhaps has been framed as one between higher government spending versus austerity, but this is a false comparison as there is enough private capital and enough need to expect considerable returns.

A second and far more plausible reason to be skeptical of investing in physical infrastructure comes from questioning whether the right projects will be pursued. It is all well and good to say that infrastructure investments will automatically trigger economic growth, but the wrong kinds of infrastructural investments are wastes of money. In the 1990s and 2000s, Japan pursued an infrastructure-oriented approach for stimulating its moribund economy. Unfortunately many of the projects that were pursued were not the right choices. The government either updated infrastructure that did not need to be updated or created new infrastructure that would later go unused. "It is not enough just to hire workers to dig holes and then fill them in again," said Toshihiro Ihori, an economics professor at the University of Tokyo. "One lesson from Japan is that public works get the best results when they create something useful for the future."[1] Similarly in Europe, a recent OECD paper estimates that approximately 20% of investments in transport, electricity grids and telecoms from 1960-2005 have produced fewer net benefits than initial spending.[2]

There are two reasons why infrastructural spending can produce minimal returns. The first reason is due to the fact that technology sometimes becomes outdated. If we think about telecommunications' infrastructure, everyone can agree that Europe does not need more telephone or telegraph lines. Wireless telephones and the Internet have made further investments in these infrastructures unnecessary. But other areas in telecommunications' infrastructure are also changing very quickly. Should Europe lay down wires to support a modern-day Internet, not knowing whether a continental

[1] From the NYT: http://www.nytimes.com/2009/02/06/world/asia/06japan.html?pagewanted=all
[2] http://www.policy-network.net/pno_detail.aspx?ID=4496&title=Investing-in-Europes-physical-and-knowledge-infrastructure

wireless network might be available at much less cost in ten years? Should Europe improve their pipeline infrastructure for liquefied gases or will batteries improve to the point that cars and households become more reliant on electricity? These are very difficult determinations to make, clearly requiring infrastructural policy-makers to also be making predictions about the future of science and engineering. Even though these sorts of predictions carry a great deal of chance, these decisions are best made by experts who understand the current potentials of science and who have closely studied the relevant issues at hand.

A second reason why infrastructural investments sometimes produce minimal economic returns can be observed from the United States. In 2011, the US Congress approved $398 million for the Gravina Island Bridge. The Bridge would have replaced a ferry service that currently connects Ketchikan, Alaska to Gravina Island. Gravina Island has fifty residents and an airport. This "Bridge to Nowhere" had been long-championed by Alaska's congressional delegations although it would later become lambasted as pork barrel spending at its worst and the project was eventually canceled. The lesson for Europe is that elected officials oftentimes seek sinecures for their own constituencies, even if it comes at the expense of overall wellbeing. Infrastructural projects cannot be left to the whims of politicians; there needs to be a politically-insulated review board in place to determine which projects are best to carry out.

In some ways, Europe is well positioned to protect itself from political interference over infrastructure projects. Public-private partnerships can incentivize private financiers to reject "bridge to nowhere" proposals. Issuing project-specific bonds (instead of country bonds) and by offering financiers a portion of control over the infrastructure would go a long way in reducing the likelihood of starting irresponsible projects. Europe also has several mechanisms to create policy without relying on elected officials. Institutions like the European Investment Bank and the European Commission are specifically designed to lessen pressures from local constituencies for the benefit of all of Europe. There are reliable technocrats at these institutions. At the country level, several European states have sophisticated bureaucracies with plenty of technical skill.