EU Plans Are Flawed and Inadequate For East Europe's Infrastructure

by Alexander Hartmann

Ten former Soviet bloc nations have been officially recognized as candidates for membership in the European Union (EU): the Baltic republics of Estonia, Latvia, and Lithuania; Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, and Bulgaria, in addition to the island-states of Malta and Cyprus.

After 40 years of Communist decay, there followed a decade of globalist looting of these nations. Transportation investments were sacrificed, while the volume of traffic from Western into Eastern Europe, especially truck traffic, exploded. On some east-west routes in Eastern Europe, traffic volume increased tenfold during the 1990s.

Hence, it was sensible for the EU to estimate necessary investments into their future members' infrastructure, in order to better coordinate financial aid coming from the EU, its members, and the international financial institutions controlled by them, including the European Investment Bank and the European Bank for Reconstruction and Development. Therefore, a project group was created, to produce a Transport Infrastructure Needs Assessment (TINA). It has its own office in Vienna, and published a final report in October 1999, after the governments and institutions involved assented to the report.

Financial grants and credits for infrastructure projects are now decided upon, based on whether they are included in the TINA report.

The Eastern European governments participated in the study, and were represented in the TINA Senior Officials Group, which was steering the process, as were the current 15 members of the European Union and its European Commission. They could present their wishes, which were taken into account, *if they matched the pre-agreed conditions*. Unfortunately, these conditions led to some important flaws in the report.

The LaRouche Proposals, and The TINA Network

First of all, the TINA Group produced a list of transportation corridors, to study which of them needed improvement. The ten "Pan-European Transportation Corridors," as agreed upon by the EU in Helsinki in 1997, were considered to be the back-bone of the transportation network, and were automatically included in TINA, without further study. These modern transport corridors are known to our readers as the "spiral arms" of the "Paris-Berlin-Vienna Productive Triangle," as proposed by Lyndon LaRouche in early 1990 (**Figure 1**).

In addition, the TINA countries could propose other important lines, which were included, after they had been studied and if they were approved by the TINA Group. For this, the prospective new EU countries had to produce information on construction costs, traffic prognosis, etc. Further, neighboring countries had to agree on border crossings of trans-border corridors, and proposals had to result in a network of similar density and structure as in the EU. Another criterion—the most damaging one, as becomes clear below—was the financial capacity of the relevant countries.

In total, the TINA network includes 18,683 kilometers of roads, 20,924 km of railroads, and 4,052 km of waterways; and 40 airports, 20 seaports, 58 riverports, and 68 other transportation terminals, which are to be built anew or upgraded. All these projects are useful, and the faster they are realized, the better.

Among the projects not yet included, but mentioned, is the Oder-Elbe-Danube Canal connecting the major north-south river networks of Eastern Europe—which the Czech, Austrian, and Slovakian governments have not yet finally agreed upon; but, once they have done so, the project will most probably be included.

This means that, based on 1999 prices, 91.6 billion euros (less than $100 billion) are now planned to be invested into the TINA network, *over 15 years and over the whole of Eastern Europe*. Of these, 37.1 billion euros are to be invested into rail lines, 44.3 billion euros into roads, 1.5 billion euros into waterways, 4.4 billion euros into airports, 0.3 billion euros into riverports, 2.9 billion euros into seaports, and 1.0 billion euros into other terminals.

Unfortunately, this is far too little, in light of the obvious deficits in infrastructure, and the vast territory of the 11 countries involved. And this could have devastating consequences, because too narrowly planned infrastructure will serve as a self-fulfilling prophecy. First, an estimate for

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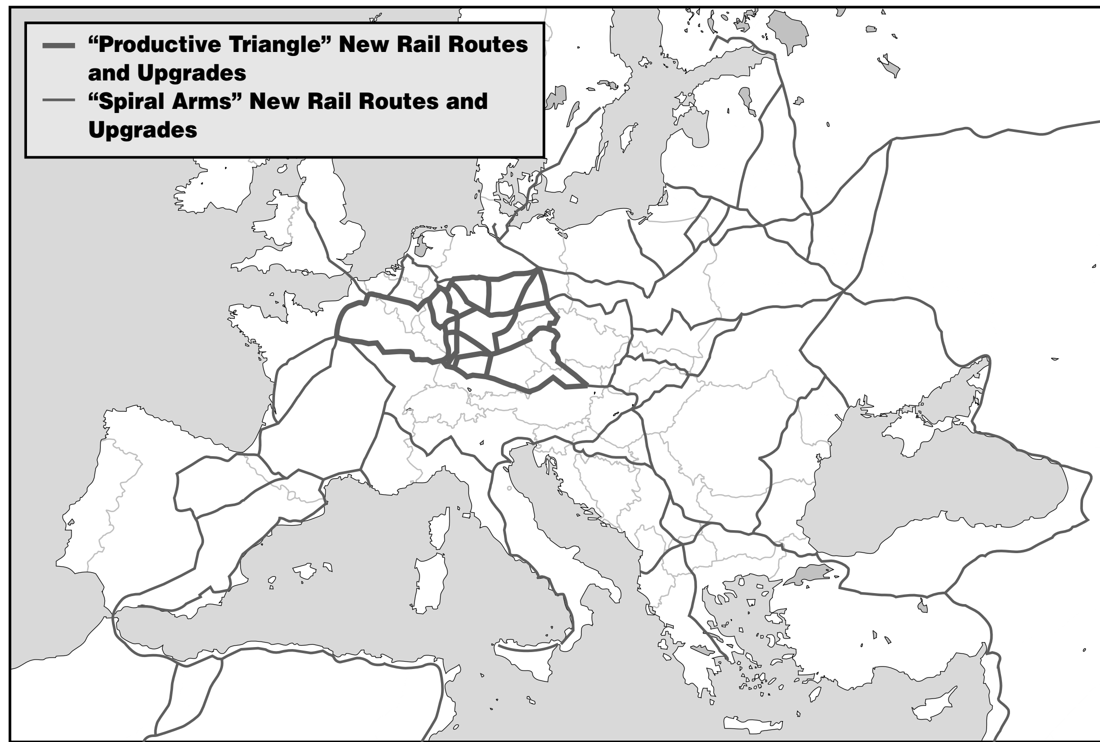
FIGURE 1

1989: LaRouche's Proposed European 'Productive Triangle' Rail Development



Lyndon LaRouche's proposed (1989) "Paris-Berlin-Vienna Productive Triangle," as the core of a modern, high-speed transport-centered development of the newly-freed Eastern Europe, through radiating arms of development corridors.

the expected economic growth is produced (which covers a whole chapter in the TINA report), and then, the expected amount of traffic is calculated, based on the expected economic growth; then, based on this traffic estimate, the needed volume of infrastucture is calculated. But an economic activity, for which the necessary infrastructure does not exist, can simply not occur!

To see how little this investment is, compare it to the real infrastructure deficit of the United States, as estimated in annual reports of the Society of Civil Engineers: $1.3 trillion of needed investments—and estimated at much higher levels by *EIR*. The economies of Eastern Europe were subject to far greater relative underinvestment under Communist governments, and for a longer period, than that of the United States. Yet, investments in them are planned at a small fraction of those the U.S. economy needs.

According to the data used for the TINA report, the 11 countries have 28.5% as much population as the EU, but only 3.8% of the EU's GDP—243.8 billion euros. From 1998 to 2015, the accumulated GDP of the 11 member candidates was estimated to grow to 733 billion euros. This equals an increase of the annual GDP of 2.3 times over 15 years, and this figure has been used to produce the TINA network. That may sound like a lot, but it is not: In order to reach the same GDP *per capita* of the population as the EU, it would need to grow by a factor of seven!

If the plans are too narrow, the potential growth of the real economy is limited in advance. In order to achieve large economic growth, traffic and infrastructure estimates have to be based on an optimistic scenario for economic development. Furthermore, great infrastructure projects themselves are the most efficient engines for economic growth—where they are missing, or where there are not enough investments, an economy will not speed up.

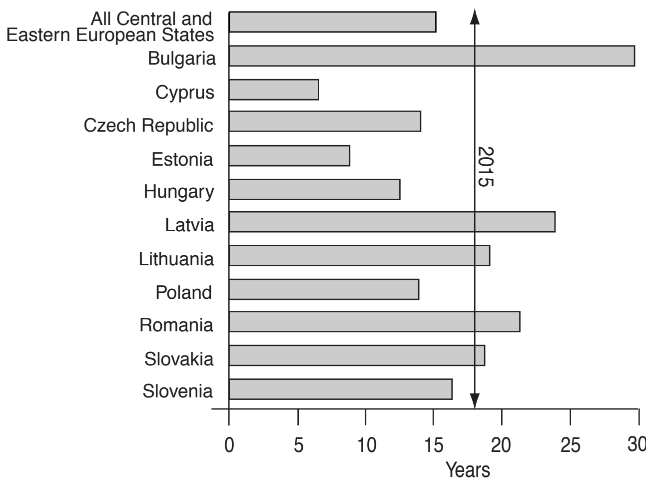
With a true policy of reconstruction, as Germany practiced it after World War II, and as Eastern Europe should, in order to raise its economic performance and its standard of living as fast as possible, an annual growth of the physical economy of about 10% should be targetted. This would raise the GDP of the 11 countries by a factor of 4.2, until 2015.

Only 1.5% for Infrastructure

The TINA needs assessment is affected by the low growth estimate in yet another way. The authors of the study assume, that only 1.5% of annual GDP can be invested into transportation infrastructure, based on the fact that among EU members, transportation investments amount to 1-2% of GDP.

But, why set a limit for infrastructure investments in advance, if we are to estimate the *needed* investments? The need arises from economic growth, and will exist, no matter how

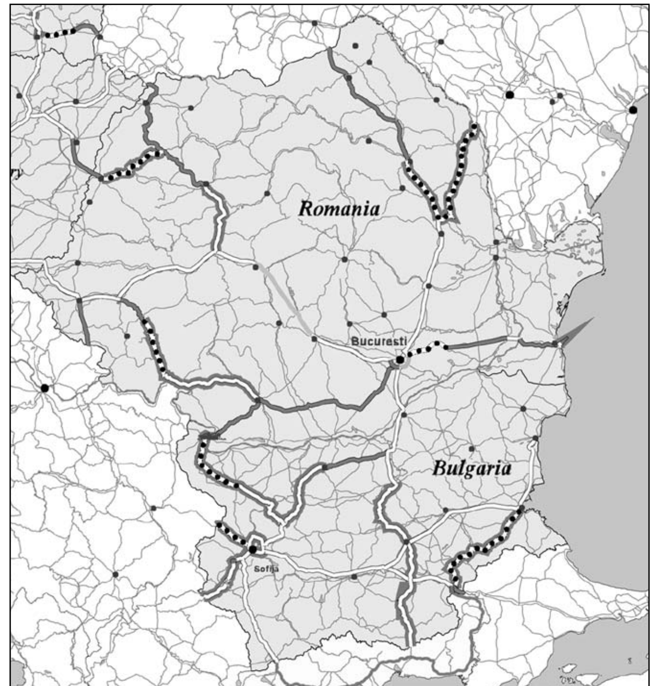
FIGURE 2
Time to Complete EU Infrastructure Projects



Source: TINA Secretariat, Vienna.

The graph depicts the number of years needed to complete the TINA projects, based on the estimated GDP and corresponding investments of 1.5% of GDP, by country.

FIGURE 3
EU's 'Planned Bottlenecks' of Roads



Source: TINA Secretariat.

The map shows the infrastructure deficits expected for 2015, under the TINA plans. The broad lines indicate roads, where more traffic is expected than these roads will be able to carry.

many of the projects can actually be financed.

Obviously, the EU Finance Ministers have exerted their influence upon the study, in order to limit the amount of money demanded for transportation. For, if a larger amount of infrastructure is pronounced necessary for the economy, it will be much more difficult to fend off these demands. Because of this limit, the TINA Senior Officials Group apparently rejected the inclusion of projects which required more money than the estimated 1.5% of GDP.

In fact, a closer look at the figures reveals that the 91.6 billion euros are significantly *below* even the self-imposed limit of 1.5%! In most of the countries, it is assumed, less than 1.5% of GDP will be invested in transportation infrastructure. Furthermore, some take the TINA list of projects as kind of a letter to Santa Claus, from which only those projects are to be undertaken which are "profitable."

The results of this approach can be seen in several locations in the study. For example, there is a graphic which depicts how many years will be needed to complete the TINA projects, based on the estimated GDP and the corresponding investments, by country (**Figure 2**). In the case of Bulgaria, it will be close to 30 years.

There are two maps in the TINA report, which show a "minimum network." They compare the traffic volume estimated for 2015, with the infrastructure which is projected to exist by 2015, and show which of the corridors will still have *less infrastructure than needed,* by then. Such lines will exist in most of the TINA countries: In the Czech Republic, Slovakia, Poland, Hungary, Romania, and Bulgaria, there will be deficits concerning rail lines; while Estonia, Poland, Slovakia, Hungary, Romania, and Bulgaria will lack certain highways (**see Figure 3**).

If a more optimistic growth estimate had been used, the infrastructure deficit would be even bigger. Thus, the TINA report amounts to a plan for traffic jams.

But, the best evidence that 1.5% of GDP of investments into transportation infrastructure is not enough, is provided by the reality in Germany. Here, the Federal Transportation Ministry's budget amounted to 3.8% of GDP as late as the 1970s—right into the "Carter recession." Then, mainly because of environmentalist activities, this was reduced to 1.3% of GDP by 1988, before growing back to 1.7% in 1995, and close to 2.6% in 1998, including financial support for public transport, as well as salaries for the Ministry's workforce: still a big decrease, compared to the 1970s levels.

Everyone who rides on a German highway can feel the result of these cuts, because many of these highways have decayed to the condition of the roads of East Germany when the Berlin Wall came down.

The German rail system, too, is following a policy of

shutting down lines, rather than spending money on improvements. The results have been decried in many publications: Germany is more and more suffering from a collapse of transportation, and loses 200 billion deutschemarks (close to $100 billion) every year, because of traffic jams. In Britain, the situation is even worse, as far as the railroads are concerned. Can this be what the Eastern European countries are supposed to take as the right level of spending on their transport infrastructure, after 40 years of looting?

A Different Approach

We will not fault the involved experts for the failures of the study. Many of them may have similar reservations about the report, and they may wait for the EU bureaucracy and member governments to change their hostile attitude toward the real economy. But, that means that the question of the real infrastructure needs of Eastern Europe has yet to be answered. Basically, a new study is necessary, based on other assumptions.

As a target, infrastructure should be planned to enable an economic growth of at least 10% annually. Based on this growth estimate, traffic volumes are to be calculated, for each year; and based on this estimate, the amount of infrastructure needed to handle this traffic should be realized, as far as physically possible. It will turn out, that *much more than 1.5% of GDP* will be needed. Additionally, totally new transportation systems will be needed, especially magnetically levitated trains, to handle the traffic volumes.

At this point, "fiscal conservative" politicians such as German Finance Minister Hans Eichel or his predecessor, Theo Waigel, will object that this will be much too expensive. In reality, the mountain of debt plaguing the German government developed *only after improvements of infrastructure were drastically cut back.*

Or, to put it another way: Our infrastructure investments are *below breakeven.* We do not invest enough, to get our economies started, and we are using up more infrastructure than we are building. Instead of accumulating capital for our national economy, we are wasting the capital investments of earlier generations—which, as can be seen in Germany, creates massive annual losses.

But, the critics of our proposal do have a point: Indeed, with the presently accepted financial instruments, it will be impossible to realize it. But that only means our financial system does not work. We need a new system, as Lyndon LaRouche has been demanding for a long time: a system capable of financing *"Wirtschaftswunder"* (economic miracles)—a system which prohibits the financial casino transactions that have become usual; which wipes out the accumulated gambling debts of our banks and nations; and imposes reliable exchange rates. A system, in which every nation has a national bank of its own, to provide credits to the nation, which enable the nation to build the infrastructure it needs.

Mexico's Economy: Fox Left with Only Prayers

by Rubén Cota Meza

On Feb. 3, Vicente Fox denounced as "catastrophe-mongers," those who pointed out that there was an economic "downturn" in the United States. "We don't see it that way," Fox said then, while he did allow that, "perhaps," the Mexican economy might not grow by 7% a year as he had promised, but 4% or 3.8%, the which, he said, "is not bad at all."

On June 7, in Beijing, Fox, in a sentence of Circeronian length and elegance in which he neither stopped nor paused, lashed out at those who "do not understand what is happening in the world," where there are economies, like that of China, which grow at rates greater than 8% a year. "I don't know why" in Mexico, when I say that it is possible to grow by 7%, "immediately they come out saying that it cannot be done," he complained.

Less than two weeks later, on June 19, Fox admitted that the national economy "is in recession, it is stuck."

Treasury Secretary Francisco Gil Díaz acknowledged that now they estimate a growth rate in the first year of Fox's government of 2-2.5%, as he reported that "in the last seven months, 400,000 people have lost their jobs." He admitted that the sharp drop in sales and the production of durable goods in the United States, is hitting Mexico directly, "more than proportionally" to the stagnation or decline of the U.S.

Immediately, officials, analysts, and businessmen feverishly began trying to calculate the true magnitude of the Mexican economy's decline, and what measures to take. One analyst forecast that, "when President Fox gives his end of the year toast, he will have created 2 million new unemployed: 1.3 million jobs that he promised to create and will not be able to create, plus more than 700,000 fired in the course of his first year in office." Rolando González Barrón, president of the National Council of the Maquiladora Export Industry, reported that his sector lost 70,000 jobs in the first five months of the year.

U.S. Collapse Hits Hard

The large companies, sinking under their debts, are being auctioned off. Bufete Industrial, one of the four largest Mexican construction consortiums, will be acquired by the Serbo Group, which will assume its $500 million in debt, and pay a "symbolic" fee of 1,000 pesos to acquire it. Citigroup and Banco Nacional de México (Banamex) announced that the former is buying the latter for $12 billion. With this purchase, more than 80% of the national banking system is in the hands