

## **2008 EIB CONFERENCE ON ECONOMICS AND FINANCE, 12 JUNE 2008**

### **OPENING REMARKS BY PRESIDENT PHILIPPE MAYSTADT**

This year the European Investment Bank celebrates its 50<sup>th</sup> anniversary. Since its founding by the Treaty of Rome, the EIB has become a major financial institution supporting the European Union's public policy objectives. Among such objectives, economic integration, convergence and regional cohesion have featured most prominently over the years in the EIB's operations. In concrete terms, this has meant the EIB providing financial and advisory support to countless infrastructure and other projects connecting European countries, regions and people in all conceivable ways.

It is thus only natural that the 2008 EIB Conference is devoted to infrastructure, growth and regional cohesion, issues at the heart of the EIB's mandate. These issues will be approached from a number of different angles. A good starting point is to consider the key facts and figures about government investment in infrastructure and its impact on economic growth. It is quite common to use the terms "government investment" and "infrastructure investment" as synonyms, but it is also well-known that governments invest in a wide range of other things than infrastructure and that not all infrastructure investment is undertaken by governments. So how much, then, do governments actually invest in infrastructure? A deceptively simple-looking question, as it will turn out. What's more, it would seem that, in the older Member States, an additional 100 km of motorways had a bigger impact on growth back in the 1960s and 1970s, when large-scale transport networks were still being developed, than today. Thus, an interesting question is whether the productivity of government investment and public capital have actually changed over the decades as infrastructure networks have become more mature.

The composition and productivity of government investment are one side of a coin, its financing another. A government raising funds for a road imposes a cost on the economy that is larger than the cost of the road itself. But the road, once built, may generate economic activity that would not have emerged in its absence, such as service stations or industrial zones along a motorway. How to conceptualise and quantify these kinds of indirect costs and benefits in project appraisal is far from straight-forward. From a more macroeconomic perspective, public financing of infrastructure investment is especially pertinent in the new Member States of the European Union, where the need for additional infrastructure investment often conflicts with the need for fiscal adjustment and reforms. What are the key issues involved in managing this balancing act?

To broaden the perspective further, the second session is devoted to the link between infrastructure and regional cohesion in great detail. This is done in two dimensions. First, the conceptual underpinnings for considering the link between infrastructure and economic geography are spelled out. It turns out that infrastructure can contribute to both agglomeration and dispersion of economic activity; consequently, the challenge is to articulate clearly how exactly different types of infrastructure affect the location of economic activities. Infrastructure crossing borders has its own peculiarities, especially when there are significant differences between and within the regions connected by infrastructure.

The second dimension in considering the link between infrastructure and economic geography is empirical. There are formidable challenges involved in assessing the determinants and impact of regional infrastructure investment empirically. Nevertheless, a number of contributions to the conference are a testimony to the fact that such challenges can be overcome (at least partially) and that interesting and policy-relevant conclusions can be drawn from such studies. Of particular interest is to consider how the determinants and productivity of regional infrastructure investment go together—do, for example, redistribution considerations imply less productive investment? Transport infrastructure is a prime example of a good with spillover effects, but how significant are they really?

In sum, the links between infrastructure, growth, and regional cohesion are complex and only imperfectly understood. Its support for European integration and regional cohesion in the past five decades has put the EIB in a unique position to reflect on the economic issues involved in disentangling that nexus. I am confident that the presentations and the discussion in the course of this conference day will further our understanding of these issues and that they will be of interest not only to the EIB but to a wider audience as well.