ECONOMY AND ECOLOGY 14.07.2025 | David Harrison

Mutually assured construction

While Europe is economically integrated, investment remains erratic. A European Investment Community could steady the flow and power future growth

Henry Kissinger wrote in *World Order* that the political and economic organisations of the world are at variance with each other. The global economic impetus is based on removing obstacles to the flow of goods and capital, but the political structure of the world remains based on the nation-state.

This dynamic has produced 'decades of sustained economic growth punctuated by periodic financial crises of seemingly escalating intensity: in Latin America in the 1980s; in Asia in 1997; in Russia in 1998; in the United States in 2001 and then again starting in 2007; in Europe after 2010.'

There is a connection between global financial instability – which began after the dismantling in the 1970s of the post-war Bretton Woods monetary system – and the significant underperformance of the European economy today.

A misfiring financial system

The Draghi report suggests the EU needs to increase investment by an unprecedented near five per cent of its GDP — more than under the Marshall Plan. The priorities are decarbonisation – including clean energy technology and transport – defence and security, digital technology and boosting productivity. And since the re-election of President Donald Trump in the United States, correcting years of under-investment in European defence and security has become a strategic necessity.

Behind these enormous shortfalls lies the absence of any automatic mechanism or invisible hand to ensure a sufficient and steady volume of investment. Europe's economy is therefore always liable to underperform and be vulnerable to the booms, bubbles and crises of an unstable global

financial order.

It may not be possible today to return to a global regime like that of Bretton Woods, but it is feasible to create the conditions to stabilise investment.

Financial crises indicate a misfiring financial system: one which, left unattended, does not turn savings, held in whatever form, into sufficient new investment. It may not be possible today to return to a global regime like that of Bretton Woods. But it is feasible to create, within a large continental economy like that of Europe, the conditions to stabilise investment, and therefore future growth, remove the main internal causes of crises and provide a buffer of economic security against those crises arising externally in future.

This is a matter which Europe's political leaders have the power to address.

Over the last half-century and more, the European economy has become highly integrated in producing and supplying goods and services. The European Economic Community built on the innovation of the European Coal and Steel Community, which ended war between France and Germany, by creating a common market for all goods and services, merging the separate national markets of its constituent states to remove barriers to the free movement of goods, persons, services or capital between them.

The construction of this vast single market in Europe continues and may never end, as new technologies and goods and services come on stream. Both the Draghi and Letta reports recommend significant further action to bring down internal barriers within it.

However, supply does not create its own demand. For demand to be 'effective' in economic theory, two elements are required: a sufficient volume of consumption expenditure and a sufficient volume of investment expenditure.

Of these, the larger element of consumption (spending by consumers on purchasing the goods and services produced) is not the main concern. It is linked to people's income, relatively stable and affected by measures, like taxation, where the levers are mostly national.

Correcting course on investment

The smaller element of investment, by contrast, is volatile and unstable, shifting according to the ebbs and flows of current market expectations of the future. There is nothing self-righting about it: it may accelerate in a bubble, leading to a boom, it may decelerate again rapidly after a crash, or diminish slowly in a gradual slump over many years until something new comes along to stimulate it. Europe has experienced all of these.

Both theory and decades of practical experience, from the Second World War onwards, teach that maintaining a steady and sufficient volume of investment requires cooperation between the public and the private sectors. This may take many different forms, and the bulk of investment is likely to be by the private sector. But by one means or another, the state, or public authority, needs to ensure that investment expenditure is kept as constant as possible.

Maintaining a steady and sufficient volume of investment requires cooperation between the public and the private sectors.

On a European level, with a highly integrated economy – and a completely free flow of capital – this implies public institutions assuming a positive duty to ensure investment is raised and sustained. To do this, a European Investment Community should organise the necessary cooperation between public and private spheres.

Investment is a long-term exercise, and so a long-term mechanism is needed, capable of taking an overall view of public and private investment levels, and the optimum nature of cooperation to ensure it is sufficient.

A European board of public investment could help bring together existing public sector projects and plans, increase investment by building up a pipeline of good and necessary future projects and mobilise finance, including from Europe's high level of household savings. Private investment levels could be raised by closer association with public institutions and plans and by creating a pan-European capital market to match long-term institutional savings with the investment requirements of companies.

Kissinger wrote in *World Order* of the losers after a financial crisis reacting politically against the global economic system. The rise of the far right in Europe, and the re-election of Trump, reflect a profound economic malaise and stagnating living standards for large segments of the population, with obviously dangerous political consequences.

Democracy can be made

An Investment Community should have an

resilient by ensuring that individual political rights and freedoms do not diverge greatly from economic circumstance.

objective of promoting equality among citizens, by ensuring higher and more stable investment levels and spreading that investment as widely and evenly as possible across its territory. At a time when European democracy is under attack, democracy can be made resilient by ensuring that individual political rights and freedoms do not diverge greatly from economic circumstance.

Amending the EU Treaties may be unnecessary. Under the political oversight of the European Council, or the wider European Political Community, a memorandum of understanding between participating states could cover the essential areas of joint action. Alternatively, a specific new investment treaty, updating or replacing the Fiscal Stability Treaty of 2012, is possible.

Crises are contagious, and immunisation benefits all, so the platform of investment and growth should be as wide as possible. The free movement of capital is global, and there are pan-European requirements to invest in areas like defence and infrastructure. Membership of an Investment Community should be open to all democratic European states wishing to engage in mutually assured construction — including the UK and Ukraine.

Jean Monnet, the originator of the Coal and Steel Community, believed we always need to guard against two natural human behaviours. The first is the tendency to defend exclusively our own individual interests. The second is to put off necessary action until the crisis is upon us. In this instance, individual interests are shared: no one European country can easily raise its investment levels alone. And a crisis has already struck. It is preparing the action before the next one hits that is now necessary.



David Harrison

David Harrison is a lawyer, former diplomat and speechwriter, author of several books on European economic and financial questions and a member of the Institut Jean Monnet.