Building the Bridges to a Sustainable Recovery

By ROBERT H. FRANK

LAST year’s economic stimulus program helped stem a crisis that was poised to rival the Great Depression. That’s the conclusion of the nonpartisan Congressional Budget Office, which recently assessed the program’s impact.

Now, those stimulus payouts are waning, and are being offset by spending cuts by state and local governments. As a result, a fragile economic recovery is faltering.

Many policy economists from both major political parties agree that additional stimulus would help put the recovery back on track. But many analysts say that growing fears about budget deficits make that step politically unthinkable.
All the while, however, we’re facing vivid examples of failing infrastructure across the country. Clearly, the maintenance and rebuilding of bridges, roads, water systems and the like can’t be postponed forever. And the work will never be cheaper to accomplish than right now, when high unemployment and excess capacity have put the opportunity cost of the necessary labor and equipment near zero.

In short, circumstances cry out for an immediate rebuilding effort. President Obama’s proposal last week to create a $50 billion infrastructure renewal bank is thus a small but welcome first step.

Europe spends about 5 percent of its annual gross domestic product on infrastructure, while China spends about 9 percent, according to the “Report Card for America’s Infrastructure” by the American Society of Civil Engineers. In the United States, which spends less than 2.5 percent, chronically deferred maintenance has left the infrastructure in dangerously substandard condition.

More than 25 percent of the nation’s bridges, for example, were structurally deficient or obsolete in 2007, according to the Federal Highway Administration.

Many problems have grown worse. The Association of State Dam Safety Officials estimated that 4,404 dams were unsafe or deficient in 2008. That was up from 4,095 in 2007 and
3,500 in 2005.

According to data compiled by the civil engineers’ society, planned spending across 15 categories of infrastructure, including aviation, drinking water systems, energy programs, levees, roads, schools and wastewater treatment, will fall short of needed investment by a cumulative total of more than $1.8 trillion in the next five years.

And periodic disasters — like Hurricane Katrina and the Interstate 35 bridge collapse in Minneapolis — have continued to remind us that we should not be neglecting these investments.

Deferring maintenance does nothing to alleviate our national indebtedness; in fact, it makes the problem far worse. According to the Nevada Department of Transportation, for instance, rehabilitation of a 10-mile section of I-80 that would cost $6 million this year would cost $30 million in two years, after the road deteriorated further.

If such a project is at all representative, spending an extra $100 billion nationwide on interstate highway maintenance now would reduce the national debt two years from now by several hundred billion dollars, relative to its level if no action were taken.

Some people object that infrastructure spending takes too
long to roll out. But many projects could be started immediately. And remarkably low long-term interest rates imply that markets expect several more years of sluggish economic activity, so even projects that take a little longer would still be timely.

But won’t this extra spending make the deficit problem worse? A better question is this: Why is anyone worried about short-run deficits in the first place?

Deficits are a long-run problem. Every cent the government borrows must eventually be repaid with interest (or, equivalently, be carried at interest indefinitely), so it’s important to pay our bills. Although spending cuts will help, the retirement of millions of baby boomers will also make it necessary to increase revenue.

But not now. With consumer and investment spending remaining far below normal, the short-run imperative is to increase total spending by enough to put everyone back to work as quickly as possible.

Even if we ignore the savings from worthy investments in roads and bridges, additional government spending has a much smaller effect on deficits than is commonly assumed. Conventional economic models estimate that each dollar of deficit-financed stimulus spending will increase the deficit by 40 to 50 cents. But getting the economy back on track more
quickly also has many offsetting long-run benefits that those models ignore.

For example, by reducing the number of children who spend part of their formative years in poverty, timely government spending will increase their lifetime earnings trajectories and, as a result, their lifetime tax payments. By improving their health and the health of their parents, such government spending will also reduce demand for costly public services.

SPEEDING the economic recovery also has positive effects on revenue through its effect on capital markets. By increasing investment, it permanently increases the nation’s capital stock, causing an upward shift in wages, with corresponding increases in tax revenue. In addition, it increases spending on research and development, causing similar increases in income and revenue. It also increases the ultimate revenue yields from the dividend, capital gains and estate taxes.

Economists have made no systematic attempt to estimate the present value of these effects. But it is clear that many of them are large and long-lived. And because they help avert more costly problems, timely investments in infrastructure may be the most powerful debt-reduction strategy of all.

With the midterm elections looming and deficit hysteria at a fever pitch, it is far from certain that even the president’s
modest proposal can gain Congressional approval. If it can’t, our infrastructure clearly isn’t the only thing that needs fixing.

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