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ECONOMICS

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A Marshall Plan for the United States

NEW YORK – When a major highway bridge in California collapsed last month, the impact on the entire southwestern United States once again highlighted the country's serious infrastructure problem. Indeed, in a sense, the world's largest economy is falling apart.

Ideological aversion to public-sector investment, together with the endemic short-term thinking of those who write budgets, has kept spending on roads, airports, railways, telecommunication networks, and power generation at levels far below what is needed. And yet the problem can no longer be ignored. If the US does not act quickly to provide its fragile economic recovery with a solid foundation of modern infrastructure, it could find itself sinking slowly back into stagnation.

It seems self-evident that a developed economy requires adequate, ongoing investment in public goods. But the state of infrastructure in the US suggests that many decision-makers do not share this view. A 2013 report by the American Society of Civil Engineers gave the US a pathetic overall grade of D+ for its infrastructure. The report cited numerous state-specific shortcomings, including Michigan's "88 high-hazard dams and 1,298 structurally deficient bridges" and the "$44.5 billion needed to upgrade drinking-water systems" in California.

The report concludes that a $3.6 trillion investment (roughly one-fifth of the country's annual GDP) will be needed by 2020 to boost the quality of US infrastructure by addressing the "significant backlog of overdue maintenance [and the] pressing need for modernization." Otherwise, the country's crumbling infrastructure will drag down economic growth for years to come.

America's desperate need for modern infrastructure has come, in some ways, at a fortuitous moment. At a time when the economic recovery remains fragile, a publicly financed infrastructure program could meaningfully transform the prospects of US workers, providing new employment opportunities for low and un-skilled labor.

Meanwhile, scaling up infrastructure spending could provide an often-overlooked opportunity for long-term institutional investors. Pension funds, insurance companies, and mutual funds in the US manage combined assets totaling roughly $30 trillion, and they have been struggling to find investments that match their long-term obligations. Persistently low interest rates have been particularly challenging for pension funds, which face rising liabilities (calculated on a discounted basis).

A large-scale program to reboot America's crumbling infrastructure would go a long way toward addressing this gap between assets and liabilities, providing pension funds with investments with long time horizons (and thus guaranteeing the incomes of tomorrow's retirees) while leveraging private capital for the public good. In fact, US pension funds are already investing in infrastructure, but they are doing so in Canada, Australia, the United Kingdom, and the Netherlands.

Sadly, ideological objections and partisan politics are likely to strew obstacles in the path of any effort to modernize America's infrastructure and create such opportunities at home. Public-sector investment invariably rekindles the age-old struggle between those who insist that government should stay out of efforts to create jobs and those who believe that part of government's role is to put underutilized human resources to work.

One way to avoid this bottleneck would be for US President Barack Obama to establish a bipartisan Infrastructure Commission tasked with finding solutions to the problem. This would operate much like the bipartisan National Commission on Fiscal Responsibility and Reform, established in 2010 to address America's fiscal challenges, or the military-base-closing commissions of the 1980s and 1990s. By splitting the responsibility between the country's two main parties, the commission would free its members from the pressures of day-to-day politics and allow them to concentrate on the health of the economy. Congress would then hold an up-or-down vote on the commission's recommendations.

Infrastructure has long been acknowledged as fundamental to a country's economic prospects. In neglecting the necessary investments, the US has put itself on a precarious path, one that could lead to stagnation and decline, which would be difficult to reverse.

There is little reason for US policymakers to accept this fate. Low interest rates, the dollar's continuing role as the world's main reserve currency, and the capacity of the public sector to increase spending make the case for higher infrastructure spending compelling. In the twentieth century, the US government spent billions of dollars to rebuild the European economy. Its project for the first half of this century should be to do the same at home.

https://www.project-syndicate.org/commentary/us-infrastructure-problems-california-bridge-collapse-by-dambisa-moyo-2015-08