Invest in Bridges and Roads, not Rebates

By Andrew Brod

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After much political wrangling, Congress passed an economic stimulus package this month. No one knows for sure whether the increasingly sluggish U.S. economy will dip into recession in 2008 or just grow very slowly, but Congress isn't waiting to find out. In the fourth quarter of 2007 the economy grew at an annualized rate of just 0.6 percent.

The stimulus package is mostly made up of tax rebates and credits, though the Senate managed to insert a provision to issue checks to Social Security recipients. Will it help us avoid a recession? And is there anything we in North Carolina can do?

Unfortunately, the answer to the first question is probably not. It's nearly impossible for the government to "head the recession off at the pass." Recessions involve broad movements throughout the economy, and a few one-time tax rebates or jobs programs are not enough to change that. An economy is like a large ocean liner, and the government's policy rudders are simply too small to turn it on a dime.

Most of the recession-relief bills passed by Congress over the last few decades have taken effect only after those recessions ended. An exception was the package of tax cuts passed in 2001, months before the recession of that year ended (and before anyone knew it had begun!). But even then, the actual short-term stimulus was minimal. Surveys indicated that only 22 percent of those who got the extra cash planned to spend it, and government data on savings rates later confirmed the survey results. President Bush later claimed that the tax cuts had pulled the economy out of recession, but that was like claiming that crowing roosters cause sunrises. Just as the sun always rises, recessions always end, regardless of what the government thinks it's done to help.

Anti-recession policies are like retirement planning: If you wait until you need it, it's too late. Ultimately, all the government can do is put the economy in a better position to withstand the *next* recession. To be sure, we can try to mitigate the short-run pain of a sluggish economy, whether by extending unemployment benefits or paying out rebates on payroll taxes. Such measures will provide a degree of stimulus, but that shouldn't be their primary purpose.

Consider Public Works

What about the longer term? Just as a family improves its long-term economic prospects by investing in education or a business, forward-thinking government policy focuses on investment. And in view of the horrid state of America's roads, bridges, and ports, maybe it's time to dig out an old-fashioned idea, one straight from the 1930s: the public-works program.

As I've noted before in this space, the U.S. is behind the curve when it comes to maintaining its physical infrastructure. It's possible that last year's steam-pipe explosion in Manhattan and bridge collapse in Minneapolis (and the water-pipe failure under Wendover Avenue in

Greensboro) were only the beginning of what we'll see if we don't start repairing and upgrading the basic building blocks of our economy.

In the 1930s, the purpose of public-works projects was to put people to work. Such projects would do the same thing now, and they wouldn't displace work otherwise done by the private sector. But the main benefit would be the infrastructure itself. A 2003 study by the consulting firm Global Insight estimated that the economy-wide payoff for each dollar invested in federal transportation projects is $2.50 (other estimates range as high as $5.70). In contrast, Economy.com estimates that each dollar spent on extending jobless benefits generates $1.64 in new economic activity, and each dollar of income tax rebates generates only $1.26.

Unfortunately, public works have fallen out of favor in Washington, where fiddling with the tax code is the economic tool of choice. What if North Carolina were to chart its own path and start its own comprehensive public-works program? We could use something like that, because the one-time Good Roads State now has some pretty bad roads and bridges.

The idea has attracted some interest. Senate Republican Leader Phil Berger of Rockingham County wants to invest in our roads and bridges, and to do that he wants to stop the flow of highway trust funds into the general fund. In addition, the state's 2008 Debt Affordability Study concluded that North Carolina's capacity to issue bonds has grown in recent years. Not all debt is bad; issuing bonds to invest in infrastructure is good debt.

Include the Internet

But we need to go beyond roads and bridges, because the New Economy is fueled by the movement of ideas and innovations as well as people and freight. Therefore the Internet is also a key element of our infrastructure. When a series of cables snapped deep under the Mediterranean Sea a few weeks ago, business suffered throughout Asia and the Middle East as Internet traffic was shut down.

Former Gov. Jim Martin once said that he wanted every North Carolinian to live no more than 10 minutes away from a limited-access highway. According to e-NC, the state-funded initiative to expand broadband throughout the state, it's realistic to reapply that goal to high-speed Internet access. Rural Internet access in North Carolina is higher than in rural areas nationwide, and yet even here we lag behind the many industrialized countries whose broadband networks are superior to those in the U.S., in terms of both access and speed. Redoubling the efforts and funding of e-NC would pay dividends well into the future.

What if we succeed? Imagine the North Carolina of 15 or 20 years from now, with great roads and bridges and an internationally competitive broadband network. We might not be recession-proof, but our state would be an even greater place in which to live and do business.

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