

## PUBLIC INVESTMENT

# Laying the foundations for a better America

*There is a need not only for more public investment, but also for an expansion of the concept of infrastructure.*

By David Moberg

**F**rom policy wonks to corporate bigwigs, participants in President-elect Clinton's two-day confab on the economy reaffirmed the importance of public investment. Unfortunately—given the need both for repair of the existing crumbling infrastructure and for developing energy-efficient and environmentally sound foundations of the future—concern about the budget deficit looms as a dangerous damper to public initiative.

Ideally, the government would undertake new investments of at least \$60 billion a year, far beyond the \$20 billion Clinton has proposed. Yet even at that rate the U.S. would lag behind many of its competitors. The funds could come from military cuts, higher taxes, more debt (a rational move despite the current deficit, as many conference

participants argued) and private capital. The need is real, the likely payoff would be enormous and the money would be available, if there were the political will.

Yet at any level of spending, there will be tough choices: which investments are most needed and will provide the greatest social and economic return? A case can be made for repairing and upgrading traditional public infrastructure—paving streets, expanding sewers and water treatment plants, maintaining urban transit. Those projects are much needed and can quickly yield several hundred thousand jobs.

But Clinton needs to focus on the long term, providing patient capital for the economy's underpinnings and using the government to organize and build, where necessary, comprehensive systems in areas such as transportation, energy and communications. Better planning of infrastructure systems and the relationships among them can not only increase the efficiency of investment but also help realize broader social goals, such as reducing inequality or reviving urban centers. By making energy efficiency, environmental sustainability and social equity conscious

goals of a coherent infrastructure policy, Clinton can ultimately increase the economic return on public investment.

Public investment in the U.S. is more complicated than elsewhere because this country relies more heavily on private enterprise to provide essential infrastructure than do most others. However, in some cases, the government can organize and encourage private investment to serve much the same function as public investment through regulation, standard setting, loan guarantees, governmental purchases and the kind of public/private partnerships that Clinton extols.

Above all, whether the money is public or private, government needs to set some priorities and establish a strategic vision, coordinating policies so that they complement and reinforce each other. Consider the relationships among transportation, energy and communications policies.

Moving people and goods as we do has become too expensive, too bogged down in congestion, too environmentally harmful and frequently inadequate for social needs (linking small towns with cities, getting inner-city residents to suburban jobs). David Morris of the Institute for Local Self-Reliance in Washington argues that the country should redesign transportation not with piecemeal improvements oriented toward existing transportation modes but with the idea of serving the needs of people and business most efficiently, taking into account all the costs.

Both the automobile and aviation are subsidized and their full costs ignored. Besides dedicated trust fund taxes, air and auto travel receive huge direct and indirect taxpayer

subsidies. Worldwatch Institute estimates that each auto in the U.S. receives a subsidy of \$2,400 a year.

Meanwhile, far too little is being done to develop an appealing, efficient system of mass transit (including new ideas for more flexible public transit) or high-speed intercity trains. Such 150- to 200-mile-per-hour trains are deployed throughout France, Japan and Germany. Europe is undertaking a vast expansion of a continent-wide high speed train network. In the U.S., high-speed trains could displace a large part of air travel in the 100- to 600-mile range as well as much highway traffic with far greater energy efficiency (thus less environmental harm), lower cost, greater safety and virtually the same or better speed.

Even greater speed and efficiency would be possible with magnetic levitation, or maglev, transportation, a technology that uses powerful magnets to suspend cars above a guideway and propel them forward at more than 300 miles per hour. Yet only \$30 million out of \$155 billion authorized in 1991 for transportation infrastructure over six years was allocated for high-speed trains, and none of the \$725 million authorized for maglev research has yet been appropriated.

Congress this year failed to grant states unrestricted use of tax-exempt bonds to finance their own high-speed rail systems, even though such bonds support airports and highways. The measure was killed by Sen. Lloyd Bentsen, Clinton's treasury secretary-designate, under pressure from Southwest Airlines.

If the federal government offered seed capital and loan guarantees as well as tax-exempt bonds, many high-speed lines—already planned in Texas, California, Florida and other states—could be built with private and public investment. Trains could compete on a level playing field.

In addition to reducing costs, pollution, congestion, accidents and dependence on foreign oil, a railroad revival could generate new manufacturing jobs—except that there are no longer any U.S. companies making passenger trains. Contracts for new trains could specify domestic manufacturing, with the hope that government commitment to railroads and technical support could eventually produce new U.S. manufacturers.

Maglev, pioneered in the U.S., lost all federal support in 1975, but Germany and Japan have poured billions of dollars into developing and testing prototypes. Nevertheless, the U.S. still has a reasonable chance of competing for this new technology, which could also help commercialize high-temperature superconductivity.

But a rational transportation policy is not likely to emerge without a different energy policy. After his economic conference, Clinton hinted that he would support slightly higher fuel taxes if they were part of a progressive tax reform package. All energy tax revenue should go into a unified transportation fund, from which allocations would be made according to a comprehensive plan. Proportionately, much more money should go for rail, public transit and energy-efficient cars, such as hydrogen fuel-cell or electric

cars—either of which could ultimately rely on solar power. But the fund should also encourage improvements of old infrastructure, such as use of longer-lasting road materials.

Yet raising energy costs without taking steps to develop a new energy infrastructure would lead to unnecessary hardship on low-income people, a rocky transition away from fossil fuels and potentially heavier reliance on nuclear power. The cheapest, most effective improvements in the energy infrastructure don't involve traditional construction projects, such as dams or power plants, but rather improvements in energy efficiency.

Thus, the federal government should financially support research on efficiency technologies, from photovoltaics to hydrogen-powered vehicles, but even more important it should start using energy-efficiency technologies itself (and stipulate the same in all federal infrastructure aid to state and local governments). For example, environmentalist Barry Commoner has demonstrated that, even at current prices, the federal government could buy about \$86 million in photovoltaics and rechargeable batteries to replace the dry cell batteries it uses and save more than \$100 million a year. Such a large order, he found, would speed development of photovoltaics, probably cutting the price by one-third and tripling the market where photovoltaics would be competitive.

Many states already require their utilities to pursue "least cost" energy strategies, which usually entail investing in energy efficiency rather than new plants. Although private utilities initially resisted such requirements, several utility executives raved at Clinton's conference about their success selling efficiency. The federal government could pursue such policies—increasing the efficiency of its own operations—and also provide incentives for states that most aggressively implement least-cost strategies at all levels, such as giving them preference in other public investment.

With strong federal leadership, there would be a cascading effect of efficiency initiatives. For example, a group of major utilities from states whose regulators had required implementation of least-cost energy strategies is awarding \$30 million to the company that develops and manufactures the best high-efficiency refrigerator that does not use ozone-depleting chlorofluorocarbons.

With a little money and a lot of creative intervention, the federal government could help overcome the shortcomings in the market for energy efficiency. Useful mechanisms could include technical advisers for business on energy efficiency; low-interest loans for businesses, individuals and homeowners; grants to the poor for home efficiency improvements; and incentives for efficiency purchases such as bounties for turning in gas-guzzlers or "feebates" that penalize inefficient cars and reward the purchase of efficient cars.

Efficiency gains—whether in time, energy or money—effectively create new income, raising standards of living and stimulating the economy (usually with significant environmental benefits). Although not usually thought of as





Photos: Steve Kagen, Amtrak & Nissan USA; left: Mike DeCoster

“infrastructure” in the way highways or roads are, energy-efficiency investments deserve to be seen in much the same light.

The highways and train tracks of the information-age economy will be a network of fiber optic cables carrying vastly more complex messages than possible with today’s telephone lines or cable television. The networks that now connect computer users give just a hint of the possibilities. This national information infrastructure could transform education, health care, financial transactions, entertainment and work—and substitute for much current travel. It would create an electronic marketplace or community on a grand scale, and in the process unleash new possibilities for information services as well as technological hardware, such as high-definition televisions and friendlier computers. With the creation of this national information infrastructure, the

consumer electronics market could be transformed, giving U.S. producers a chance to regain a foothold in an industry now dominated by the Japanese.

Al Gore has been an enthusiastic backer of such information infrastructure, and his 1991 legislation committed \$2 billion to develop a network among the nation’s supercomputers. Already bits and pieces of the new infrastructure are emerging, but there is no consistency in the design of the systems, and obstacles to progress have been posed by competition among industries, such as the telephone and cable companies.

Our deregulated communications industry may be innovative in some ways, says Fred Weingarten, executive director of Washington’s Computing Research Association, “but it’s not very good at planning the next national infrastructure. These guys compete with each other, and sitting

back and expecting that they'll spontaneously get together and agree on where we should go is futile. The federal government somehow has to intervene softly."

As these examples suggest, there is a need not only for more public investment but also for an expansion of the concept of infrastructure. For example, federal support for basic research and for the commercialization of technologies as well as education and worker retraining should be seen as

essential economic building blocks on a par with transportation, energy and communications.

In many cases, direct public investment will be the most effective approach. In other cases, public spending can be used to leverage private investment. But the government, even then, must act to guarantee that the emerging infrastructure in all areas is inclusive and available to everyone. If the new information or energy efficiency infrastructure developments were left to private business alone, for example, the poor and perhaps the vast majority of Americans would not be able to take advantage of the new systems. That would not only exacerbate inequality but also undermine the full potential of new infrastructure.

In addition to encouraging efficiency and environmental sustainability, then, it is crucial that the federal government insure that new infrastructure developments create a greater sense of inclusive community and reduce inequality. With that vigilant strategy, the new wave of public investment can be an investment in a better society as well as a more productive economy. ◀

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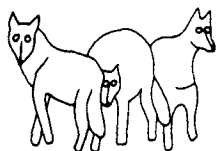
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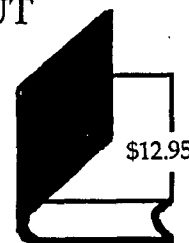
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