EIR Economics

Federal Infrastructure Plans Are Moved, To Save U.S. States

by Anita Gallagher

When the first day of Fiscal Year 2004 opened for America's states at midnight on July 1, seven of the 50 states exploded financially, unable to patch together a budget, and facing mass layoffs and shutdowns in the immediate term. In the post-midnight hours, four—New Jersey, North Carolina, Missouri, and Rhode Island—managed to cobble together a reduced semblance of a budget, while three—California, Connecticut, and Illinois—had no budgets going into the Independence Day holiday. Nevada had only a partial budget; Oregon, a one-month stopgap measure; and Massachusetts' and Maryland's Governors have sequestered—blocked the normal spending of—hundreds of millions of dollars as reserves for budgets they admit are far out of kilter. Sixteen state legislatures have been called into Special Sessions since January—the vast majority convened for the impossible task of making further cuts in essential services, as the steady sinking of state tax revenues in economic depression continues into a third year.

The states are between a rock and a hard place, with still-falling revenues and increased demands for, and costs of, essential services. Budget cuts have only worsened the problem, by creating still more unemployed, who pay no taxes—and tax increases won't work when the incomes of most Americans are falling.

On July 3, the U.S. Department of Labor announced that the June 2003 unemployment rate rose to 6.4%, from 6.1% in May—a nine-year high; unemployment for black Americans rose to 11.8% from 10.8% during the same month. More than 21% of the unemployed had been looking for work for 27 weeks or more; these workers, under the normal unemployment rules, would have been thrown off the rolls after 26 weeks. In June, the number of non-farm payroll jobs fell by 30,000, and the May figures were revised to record a 70,000 jobs loss—more than four times the 17,000 originally reported. Manufacturing lost 56,000 jobs in June, the 35th straight monthly decline, for a total of more than 2.6 million jobs lost since July 2000, according to U.S. Department of Commerce statistics.

Demand Federal Infrastructure Building

Democratic Presidential candidate Lyndon LaRouche addressed this in Fall 2002, with his "November Program to Rebuild the Economy," based on using the *credit* of the Federal government for projects which create physical wealth—hard infrastructure, such as transportation and power, and soft infrastructure, such as health-care. He also addressed how such improvements can be paid for: Only the Federal government, and not the states, has the authority to issue credit for such projects. The month of June saw, for the first time in this collapse, the introduction in Congress of Federal measures to contruct new economic infrastructure and put Americans back to work, which were significant enough to attract the name "New Deal" measures in press reports. The bills are still on too small a scale and too slow a track, something LaRouche's Presidential campaign is uniquely able to change.

Such spending is not only *not* inflationary so long as it is directed to improvements in real productivity, but actually generates wealth. There is no need to "offset" spending immediately, and play the Democratic Leadership Council game of sounding "fiscally responsible"; the Federal government can use its own credit to generate a recovery that pays for itself, as Franklin Roosevelt did.

LaRouche called the new bills "positive and useful" developments, which may need modification in implementation, but have the right basic intent: to get people back to work fast. He said on June 30 that this legislation should be studied in the context of the parallel developments in Europe, especially the "Tremonti Plan," under the current Italian chairmanship of the European Union, to build transportation projects throughout Europe. Beyond investing in infrastructure systems, the "big nut" that must be taken on for recovery is reorganizing a bankrupt international monetary system, LaRouche said in his July 2 webcast.

In response to the desperate situation of the states, two bills, each calling for $50 billion in infrastructure spending, have been introduced into the U.S. Congress since the end of May:

• "The Build America Bonds Act of 2003" (S.1109), introduced by Sens. Jim Talent (R-Mo.) and Ron Wyden (D-Ore.), would provide "$50 billion in new transportation infrastructure funding through Federal bonding to empower States and local governments to complete significant infrastructure projects across all modes of transportation, including roads, rail, transit, aviation, and water, and for other purposes." In its "Findings," the bill states that infrastructure "drives our economy," and "every billion dollars in transportation investment has the potential to create up to 47,500 jobs." It also states that "Every dollar invested in the Nation's transportation infrastructure yields at least $5.70 in economic benefits because of reduced delays, improved safety, and reduced vehicle operating costs."

The bill would create a "Build America Corporation" to issue and sell bonds to corporations, individuals, or other entities to generate the $50 billion. Instead of interest, bondholders would receive a tax credit.

• "The Rebuild America Act of 2002" (H.R. 2615) is a $50 billion infrastructure bill cosponsored by 34 Democratic Representatives, introduced on June 26 by Reps. Jerry Costello (D-Ill.), Lincoln Davis (D-Tenn.), Jim Oberstar (D-Minn.), the ranking Democrat on the House Transportation and Infrastructure Committee, and 31 other Democratic members of that Committee. The bill "provides $50 billion for infrastructure investment to enhance the safety, security and efficiency of our highway, transit, aviation, rail, port, environmental and public buildings infrastructure."

The bill mandates that all funds be invested in *ready-to-go* infrastructure projects, with priority given to projects that can award bids within 90 days of the bill's enactment. A survey of state transportation departments by the American Association of State Highway and Transportation Officials found that, as of April 2003, the states have 2,710 projects, which total $17.1 billion, that are ready to go to construction if additional funding were made available. H.R. 2615 requires the entire $50 billion to be obligated within two years.

Using Federal Highway Administration (FHWA) data on the effects of highway infrastructure investment, the bill estimates that its $50 billion mandate would create more than 2.3 million jobs and $310 billion of economic activity. (The FHWA estimates that each $1 billion in new infrastructure investment creates 47,500 jobs and $6.2 billion in economic activity.) The "Rebuild America" bill cites a recent national survey which found that transportation contractors hire employees within three weeks of obtaining a project contract, and that employees begin receiving paychecks within two weeks of being hired. H.R. 2615 notes that 8.4% of construction workers were unemployed, but that figure rose higher in June.

By leveraging the Federal investments, the 10-year cost to the Treasury is under $34 billion, consisting of $9.6 billion from existing balances in the Transportation Trust Funds; $4.5 billion from changes in the tax code; and $19.5 billion from the General Fund. The sponsors offset these investments by shutting down abusive tax shelters employed by corporations, including schemes used by Enron, to generate $20.1 billion; by preventing American corporations from claiming a foreign address to avoid U.S. taxes while doing the majority of their business in the United States ($4.8 billion); and by extending customs user fees for 10 years ($10 billion).

Largest Spending on High-Speed Rail

The House bill would invest in the following areas:

• Highways: The cost of congestion in the nation's 75 largest urban areas is a staggering $68 billion annually in wasted time (3.6 billion hours of delay) and fuel (5.7 billion gallons of excess fuel); nationwide, the annual cost of congestion is likely over $100 billion, the bill states. There is currently a $14.2 billion gap in spending needed, according to the Department of Transportation, to merely *maintain* highway and transit system in their current condition. The bill proposes $5 billion in spending, to create 237,500 jobs and $31 billion of economic activity.

• Transit: The bill adds $3 billion in spending, intending to create 142,500 jobs.

• Aviation: The Airport Council International estimates an average annual investment gap for airport needs of $3 billion per year, exclusive of new money needed to install explosive detection equipment. Three billion dollars in spending would create 142,500 jobs and $18.6 billion in economic activity.

• High-Speed Rail: The bill notes that Congress or the Department of Transportation have designated 11 high-speed rail corridors. In the Midwest, as an example, about 17% of all passengers at Chicago's O'Hare International Airport arrive from a city that would be served by the fully built-out Midwest Regional Rail Initiative—far more efficient than short-haul flights or highway travel. Some $14 billion in spending would create 665,000 jobs and $86 billion of economic activity.

• Passenger and Freight Rail: The bill would provide $2.5 billion for capital investment for Amtrak over the current authorization, to upgrade the Northeast rail corridor so that Acela trains can achieve their design speeds. It would also provide another $5 billion in grants, loans, and loan guaran-