

EIR Special Report

Infrastructure: the \$8 trillion hole no 'economist' counts

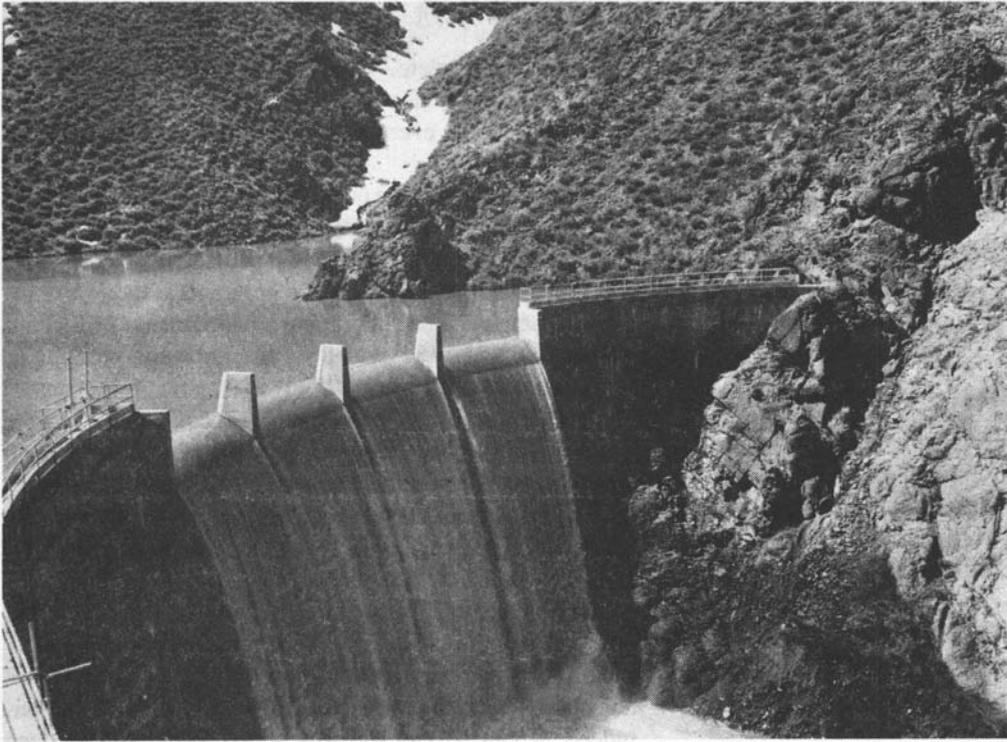
by Richard Freeman

Had the United States diverted capital-goods and other inputs in the amounts required during 1983-84 to meet the incurred costs of maintaining basic infrastructure, what the economy recorded as a 1% increase in tangible output over that period would have become a 9.4% drop in tangible output over that period. That is the result reported in *EIR's* June 1984 *Quarterly Economic Report*.

The United States has suffered a growing annual deficit in spending on basic economic infrastructure since at least the 1965-66 period of the Johnson administration, the beginning of the "post-industrial" drive launched by the New York, London, and Swiss financial oligarchy. A detailed study appearing in the *EIR* report has now revealed the shocking condition into which this policy has thrust the U.S. economy's infrastructural foundations, without which no aspect of manufacturing or agricultural activity can long continue. The study offers the preliminary estimate that over the next 20 years the United States will be minimally required to expend \$8-10 trillion to meet cumulative incurred costs of infrastructure. This takes into account that no such expenditure could conceivably be met without the rapid transition to laser-based machine-tooling, plasma steelmaking, fusion-fission hybrids, and first-generation fusion reactors over the 20-year period, which, while it means expanded need for infrastructure, also means the higher levels of productivity required to pay for it.

Any economy, however apparently healthy, which is not repairing, replacing, and expanding basic infrastructure for the sake of future agro-industrial growth, is living on borrowed time. Environmental management, such as fresh-water management, general transportation systems, production and distribution of energy supplies, and basic urban industrial and social infrastructure, are as essential to agriculture, industry, and commerce in the economy as a whole as plant and equipment are to the industrial enterprise. These incur a calculable amount of expenditure for maintenance and depreciation. If those incurred costs are not paid, the economy collapses.

By deducting this unpaid cost of basic-infrastructure amortization from physical output, turning the economy's apparent performance of a 1% improvement



Water from the snowmelt replenishes storage reservoirs like this one in Nevada, from which water is drawn for irrigation, industrial and domestic uses and electrical power. But many dams are now in hazardous condition, due to lack of maintenance and repair—part of U.S. infrastructure's collapse across the board.

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into an actual 9.4% decline, we represent the extent to which the economy's "superstructure" has operated in apparent health only by looting the economy's foundation.

What is infrastructure?

Infrastructure, in principle, is not a luxury, nor an overhead expense, nor a matter of boondoggles. It is the primary investment a society must make, on penalty of watching its economy as a whole grind to a halt—despite even the most judicious economic policies otherwise. Infrastructure is the framework into which manufacturing and agriculture are "lowered." This may mean extensive dams, water systems, piping, electricity-generating plants, and transmission wires, before a single manufacturing or agricultural enterprise can begin operations. Should those systems fail, not a single manufacturing or agricultural enterprise can continue operations. Infrastructure is the limiting function, or better, the *potential* function of agro-industrial and population growth. For this reason, infrastructure expenditures do not "pay off" immediately. They are investments in the economy's future power to grow. If these costs are not met over an extended period, as in the United States today, no amount of investment in other enterprise will produce growth.

Traditionally, the bulk of expenditures for basic economic infrastructure are made by government (federal, state, local) and public utilities. Over the course of the 1970s, as governmental budgets were cut drastically, the national repair bill for infrastructure-maintenance went largely unpaid. By how much? We cannot measure this repair bill by standards of historical financial accounting; inflation drives up

the costs of the repairs. It is a fair estimate that to restore the basic economic infrastructure of the U.S.A. to 1970 levels, about \$3 trillion of such expenditures would be required. Since a great part of that repair bill occurs in the form of expenditures by government, this portion of the repair bill is not listed in profit and loss accounts for the U.S. economy as a whole. We must deduct a fair portion of \$3 trillion from the nominal U.S. GNP over the period 1970-83, with the greater part of this loss concentrated in the 1979-83 period.

Worse, basic economic infrastructure affects chiefly the production and transportation of physical-goods output, so that it is with the smaller portion of nominal GNP associated with that output that we must compare the repair bill for infrastructure. Now, the relative impact of unpaid infrastructure costs begins to be clearer.

As a matter of budget-balancing, infrastructure allotments are cut savagely in authorizations of federal, state, and local governments. Skyrocketing financial rates cripple investment programs of utilities. Budget-balancers, persuaded by the rhetoric of the Felix Rohatyns, walk smugly out of the budget-planning sessions, persuaded they have cut enough to get through the coming year, by cutting that which is not "cost effective," i.e., has no immediate pay-off. The cuts redound in such forms as a nationwide fresh-water crisis, collapsing transportation systems, rolling brown-outs, and imminently rolling power black-outs, and a general collapse of urban industrial and social infrastructure.

Entire chunks of highways fall off; bridges with passenger cars plunge into rivers; entire cities' populations line up for rations of potable drinking water; droughts ruin billions

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of dollars worth of crops on unirrigated land; subway riders are trapped on trains for an hour to travel only a few blocks; dams burst killing tens of people, and causing tens of millions of dollars in damage; hundreds of billions of dollars worth of commerce are lost as canals and rails are shut down for lack of maintenance.

These are everyday occurrences throughout America. One day, if this continues, the nation's infrastructure must become a giant junk pile, and the economy as a whole must collapse upon its shattered foundations.

The political problem

The process of collapse of U.S. economic infrastructure has been partly deliberate and partly the result of economic stupidity. To the Swiss-based financial interests which control our energy, food, and banking-insurance cartels, the babbling of a Milton Friedman or more “liberal” variety of the same monetarism, also reflected in the “cost-effective” babbling of the budget balancers, has the special ideological usefulness that infrastructure spending is caused to disappear from view, and then reappear only as discredited “big government spending.” The typical Republican “fiscal conservative,” even if he is otherwise an honest patriot, as the Mont Pelerin Society and Hillsdale College's David Stockman is not, is led to a policy that would do the Kremlin proud, destroying the nation's economic underpinnings in the name of “curbing big government spending.”

More witting than most “fiscal conservatives” are the Soviet-influenced fellows in the Mondale wing of the Democratic Party, who don't like infrastructure because they don't like growth, and say so. The Congressional Budget Office's April 1983 report, “Public Works Infrastructure: Policy Considerations for the 1980s,” proposes to compel communities to do without basic infrastructure by imposing “user fees”: “Many projects now classified as needs could probably be eliminated if users were faced with paying the full costs of water-related services provided them.”

The witting policy of the financial oligarchy is typified by the May 24, 1984 *BusinessWeek*, whose cover story, “Are Utilities Obsolete?” proposes that “Thomas Edison's vision of the central power station as the sovereign source of elec-

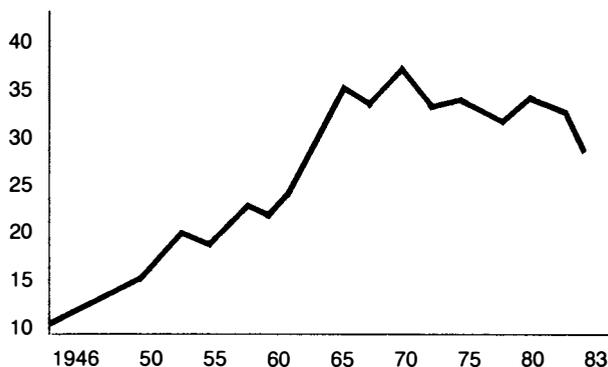
tricity may be obsolete,” implicitly pointing toward the electrical-energy equivalent of Mao's Great Leap Forward—a generating-unit in every backyard, the “post-infrastructure society.”

In the 1960s, policies conduited through London effected a paradigm shift in the Lyndon Johnson administration (1963-68). In place of economic development, Johnson's advisers substituted “quality of life” social programs as the core of his “Great Society.” The succeeding administration of Richard Nixon (1968-73) was guided by the imbecilic precepts of Friedman: that only money supply and market forces count. The physical economy be damned. This continued under the hapless Ford. The Carter administration (1976-80) then preached “conservation,” the cancellation of urgent water projects, and the shut-down of nuclear power. Carter also appointed Paul Volcker to head the Federal Reserve; his usury has looted the physical economy for five years.

Though state and local infrastructure building grew at a brisk pace in the 1950s and 1960s, peaking in 1969 at \$22 billion (1972 constant dollars), the “post-industrial shift” has left current infrastructure spending at less than \$2 billion. Indeed, it can be categorically stated that only the steep decline of industrial and agricultural activity imposed by the post-1979 double-digit interest-rate policy of the Federal Reserve has prevented infrastructure's deterioration from resulting in huge congestion, even catastrophe. The collapse in physical goods output since 1979 “saved” America from experiencing the effects of infrastructure's demise.

Post-war trends of expenditure on basic economic infrastructure, 1946-83

(In billions of 1972 dollars)



We now examine the scope of the U.S. deficit in basic economic infrastructure.