

Capital Budgeting for Economic Growth: Eisenhower's National Defense Highway Act

by Richard Freeman

Any comparison of the physical conditions of life and economy in the U.S.A. during the recent four decades, with the rate of improvement of physical standard of living and productivity during the first two post-war decades, demonstrates that the post-1968 change to a 'services economy,' has been, consistently, a disaster for our nation's physical economy, the source of the ruin of our nation's credit, and the cause for the collapse of the conditions of life of the lower eighty-percentile of our family-household income-brackets. . . .

What is a competent approach to establishing and maintaining a U.S. Federal Capital Budget—as distinct from a slop-jar package which lumps short-term and long-term balances together indifferently, in a single silly lump, as a common budget?

—Lyndon LaRouche, "Deficits As Capital Gains: How To Capitalize a Recovery"

In the Jan. 27, 2006 edition of *EIR*, Lyndon LaRouche delivered a clarion call for a return to sanity on the part of Washington, D.C. policymakers in both the Congress and the Executive branch. In a feature essay, "Deficits As Capital Gains: How To Capitalize a Recovery," LaRouche called for the establishment of a separate Federal Capital Budget, distinct from the annual budget of Federal operating costs, to launch a massive infrastructure recovery program, vital to reversing the nation's now near-fatal slip into a post-industrial horror show. Such a Federal Capital Budget, properly conceived, LaRouche wrote, would more than pay for itself through infrastructure improvements, productive job expansion, and expanded physical economic growth. Therefore, it should not be considered part of the government's operating costs, but, rather, a source of wealth-creation.

LaRouche's proposal represented an immediate solution to a problem perplexing those lawmakers today, who recoil in horror at the idea of adding to the nation's out-of-control Federal deficit, but who recognize that the nation's infrastructure is in an advanced state of collapse, and that only the Federal government can reverse that collapse through massive investment.

Such thinking today is considered radical, even revolutionary. But prior to the devastating cultural paradigm shift of the 1966-71 period, such American-System thinking was not so rare. And the idea of a separate Federal Capital Budget,

to fund generational and multi-generational great projects, was used on a number of occasions, and always achieved remarkable results.

One such instance was President Dwight Eisenhower's mid-1950s National Defense Highway Act, which created a modern national highway grid, vital to both commerce and the national defense. Although the intent of the Act would be subverted over time, to virtually shut down the nation's critical rail grid, and herald an era of internal migration to cultural wastelands called "the suburbs," the essence of Eisenhower's intent and the success of the Act cannot be diminished.

National Interstate and Defense Highways Act

Known officially as the National Interstate and Defense Highways Act of 1956 (PL 627), the bill was signed into law on June 29, 1956 by President Eisenhower. The Act called for the U.S. government, and state and local governments combined, to spend \$101 billion over 10 to 13 fiscal years, starting fiscal 1956 (the U.S. government would spend the lion's share of the funds). The breakdown: 1) the U.S. and state governments would spend \$25 billion to construct a National Interstate Highway System which would extend 40,000 miles (ultimately, extended to 42,500 miles). This core system would be built sturdily, carry traffic at high speeds; 2) the same governments would spend \$76 billion to construct and repair "primary roads, secondary roads, and other roads," which constituted the other portion of America's 3.37 million miles of roads.

The Act was envisaged as a 20-year capital improvement project, and therefore, its funds were to be segregated from the U.S. government budget's general funds. In conceptualizing the proposal, Eisenhower had appointed a National Advisory Committee on a National Highway Program in 1954, headed by his close associate, Gen. Lucius Clay. In February, 1955, Clay released the committee's report, *A 10-Year National Highway Program*. According to one historian, "To finance the *Interstate* program, the committee proposed creation of a federal corporation which would issue \$20 billion of long-term bonds to be repaid over the 32-year period, 1956-87, from the existing two-cent federal motor fuel tax." The bonds would have an interest rate of 3%. Thus, Eisenhower and Clay planned to issue 30-year bonds, at 3% interest, for a long-term capital improvement project, separated out from the U.S. operating budget.



DOT Federal Highway Administration

The Clay Committee presents its report of recommendations to President Eisenhower, for financing a national interstate highway network, on Jan. 11, 1955. Gen. Lucius Clay is standing at far left.

The bonding proposal was defeated in the House of Representatives in 1955.

To make sure the process went forward, Eisenhower changed the funding formula for the Interstate Highway program: Previously funding was split evenly between the Federal government and the states; now the Federal government assumed 90% of the cost.

Eisenhower and FDR

The 1916 Federal-Aid Road Act was the first major legislation to establish the idea of a cooperative Federal-state highway program, and provide Federal funding assistance for highway construction, though on a limited scale. The first section of road completed under the Act was a 2.6-mile project in Contra Costa County, Calif.

In 1938, President Franklin Roosevelt signed into law the Federal-Aid Highway Act, which led to the publication of a research report, the second part of which was entitled "A Master Plan for Free Highway Development." This presented the outline for construction of a 25,800-mile non-toll inter-regional highway network, anchored by three East-West superhighways, and three North-South superhighways.

During the period 1920-1940, there were great advances in the construction and soundness of highways: in the determination for highways of materials and soil parameters for designing pavements; studies of the geometries of radii of curvature of highways and longitudinal gradients; work on drainage and other structures; the construction of bridges, etc. Important work went on that clearly showed that the pavement struc-

ture should be designed in relation to the expected truck axle loads, as axle loads increased from 2,500 to 13,000 pounds.

In 1944, the Federal Aid Highway Act greatly expanded the highway program. Section 7 of the Act specifically authorized designation of a 39,000 mile "National System of interstate Highways . . . so located as to connect by routes, as direct as practicable, the principal metropolitan areas, cities and industrial centers, to serve the national defense, and to connect at suitable border points with routes of continental importance in the Dominion of Canada and the Republic of Mexico."

Eisenhower employed these explicit words, defining the Interstate system, in his 1956 Act. The 1944 Act authorized a \$1.5 billion apportionment for a three-year period beginning at the termination of the war emergency.

During the war, all non-critical highway work was deferred, to save on materials and labor. Accordingly, many miles of highway had grown worn and

obsolete. At World War II's conclusion, drawing down funds appropriated from Roosevelt's 1944 Federal Aid Highway Act, states began construction work on the National Interstate Highway System. When Eisenhower took office in January 1953, the states had completed improvements of 6,196 miles of the highways designated to be part of the Interstate Highway system.

President Eisenhower's Approach

Eisenhower keenly came to see the need for a national efficient highway system as a result of two experiences in his life: his 1919 transcontinental trip across the United States, and his experience with the German Autobahn system during World War II.

As an historian reported, Eisenhower's "first realization of the value of good highways occurred in 1919, when he participated in the U.S. Army's first transcontinental motor convoy from Washington, D.C. to San Francisco. When Eisenhower and a friend heard about the convoy, they volunteered to go along as observers, 'partly for a lark and partly to learn,' he later recalled. On the way west, the convoy experienced all the woes known to motorists and then some—an endless series of mechanical difficulties; vehicles stuck in mud or sand; trucks and other equipment crashing through wooden bridges; roads as slippery as ice, or dusty, or with the consistency of 'gumbo'; extremes of weather from desert heat to Rocky Mountain freezing.

"On Sept. 5, 1919, after 62 days, the convoy reached San Francisco."



FDR Library

President Franklin D. Roosevelt signed into law the Federal-Aid Highway Act in 1938, which laid the basis for the work that was done later.

As for a German-style Autobahn system, the historian recounted, “During World War II, Gen. Eisenhower saw the advantages of the Autobahn network. He also noted the enhanced mobility of the Allies when they fought their way into Germany.

“These experiences shaped Eisenhower’s views on highways. ‘The old [1919] convoy,’ he said, ‘had started me thinking about good, two-lane highways, but Germany had made me see the wisdom of the broader ribbons across the land.’” In another location, Eisenhower asserted, “I had seen the superlative system of the German Autobahnen, and recognized that the United States was behind in highway construction. In the middle of the 1900s, I did not want us to fall still further behind.”

Eisenhower was elected President in November 1952; during 1953, he concentrated on ending the Korean War. In 1954, he made highways a matter of emphasis.

Eisenhower prepared draft notes to unveil his program to the Governors’ Conference, which was being held July 12, 1954, in Lake George, N.Y. A death in his family prevented Eisenhower from attending the conference, so he had Vice President Richard Nixon deliver his address. Eisenhower did not trust Nixon to speak extemporaneously, so he gave Nixon his detailed notes. Nixon told the conference, “The President had a message that he particularly wanted to deliver to the Conference. He was good enough to give me the notes that he had made for delivery of that message. . . . Having seen these notes . . . I can tell you the President follows the rule that the best informal speech is the one that is very well prepared.”

The Eisenhower notes said: “We don’t want a blueprint for a regimented economy, but we must have vision, comprehensive plans, and cooperation between the States and Federal government.

“First, on the bright side, we live in a dramatic age of technical revolution through atomic power, and we should

recognize the fact that the pace is far faster than the simpler revolutions of the past. It was a very long generation from the Watts steam engine to a practical locomotive. It was less than nine years from the atomic bomb to the launching of an atomic-powered submarine. We have seen a revolutionary increase in opportunity, comfort, leisure, and productivity of the individual.”

Eisenhower said that there was also a dark side. “On the dark side, as we look into the future we see a shortage of 300,000 classrooms in the grade schools of the country, a shortage of 813,000 hospital beds, an annual increase of 250,000 disabled who require vocational rehabilitation.”

Eisenhower observed that in 1870, the population of the United States was 38.5 million people, that in his time, it was 165 million, and that by 1980, it was estimated the population would reach 200 million people. The population would require a 10-year \$50 billion highway program. He said the “highway net of the United States. . . is obsolete.” He added, “it has never been completely overhauled or planned to satisfy the needs 10 years ahead.” He stated, “A \$50 billion highway program is a goal toward which we can—and we should—look.” (At times, Eisenhower referred to the program as a \$50 billion program, at other times a \$101 billion program).

Nixon then put forth Eisenhower’s view: “The President believes that the requirements are these: a grand plan for a properly articulated system that solves the problems of speedy, safe, transcontinental travel—intercity communication—access highways—and farm-to-market movement—metropolitan area congestion—bottlenecks—and parking.”

Continuing with Eisenhower’s view, Nixon stated that “the fourth, very probably, [would be] a program initiated by the Federal government, with State cooperation, for the planning and construction of a modern State highway system, with the Federal government functions, for example, being to advance funds or guarantee the obligations of localities or States which undertake to construct new, or modernize existing highways.”

Eisenhower’s speech created a tremendous stir among the Governors. For years, the Governors Conference had been on the record publicly calling for the abolition of the two-cent per gallon gasoline tax collected on a *Federal level*, so that the states, in turn, could collect this two-cent per gallon tax. The states would implement highway construction on a state-by-state basis, eliminating the role of the Federal government. Eisenhower’s proposal called for the states to question their tendency to think in terms of “states rights,” on a major scale.

Eisenhower Turns to Lucius Clay

In August 1954, following his speech to the Governor’s Conference, Eisenhower asked his close associate Gen. Lucius Clay to study and come up with a concrete plan for a National Interstate Highway System.

Eisenhower set into motion three groups that would study

Routes To Be Added To The National System of Interstate and Defense Highways

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the Interstate Highway system: 1) The Governor's Conference Special Highway Committee, headed by Wisconsin Gov. Walter Kohler, Jr.; 2) A U.S. government executive branch "Interagency Committee" (that included the Departments of Treasury, Commerce, Budget); and 3) The National Advisory Committee on a National Highway Program, headed by Clay. (Clay appointed the other four members of the five-member Committee: Steven Bechtel of Bechtel Corporation; Bill Roberts, head of Allis-Chalmers; Dave Beck, President of the International Brotherhood of Teamsters; and Sloan Colt, the President of Bankers Trust).

Lucius Clay was born in 1897 in Georgia. He graduated from West Point in 1915, and became an officer of the U.S. Army Corps of Engineers, where he served his entire military career. In the period 1933-37, he was the number three of the Army Corps of Engineers in Washington, D.C. and worked with the Congress to develop many projects. He collaborated with Harry Hopkins, and placed critical Army Corps engineers into top positions in Hopkins' public works agencies. This Clay-Hopkins collaboration was crucial in running the economic mobilization for World War II (Clay was Director of Materiel for the Chiefs of Staff, i.e., military director of economic mobilization).

In 1937, when Clay went to the Philippines to work with Gen. Douglas MacArthur, Clay became close friends with Dwight Eisenhower, who was MacArthur's Chief of Staff. Eisenhower always highly respected Clay's engineering competence and overall judgment.

Moreover, according to an historical account, Clay was

the key person who persuaded Eisenhower to run for President in 1952, and directed Eisenhower's campaign.

Clay indicated in an interview in his biography, that Eisenhower also had, within the Interstate Highway system, the idea of fostering public works jobs. Clay stated, "[Eisenhower's assistant] Sherman Adams called me down [to Washington]. This was in August 1954. We had lunch with the President, and they were concerned about the economy. We were facing a possible recession, and [Eisenhower] wanted to have something on the books that would enable us to move quickly if we had to go into public works. He felt that a highway program was very important. So he asked me if I would head a

committee to make a study to recommend what should be done. That was the genesis of the President's Advisory Committee on a National Highway Program."

Clay presented three reasons why the U.S. needed the Interstate Highway system. "It was very evident that we needed better highways. We needed them for safety, to accommodate more automobiles. We needed them for defense purposes, if that should ever be necessary. Not only for moving troops and supplies, but for the evacuation of population centers in case of possible attack. And we needed them for the economy. Not just as a public works measure, but for future growth." These are the reasons that Eisenhower also gave, and they are presented in most of the public reports and messages to Congress on the Interstate Highway system.

Engineer Clay tackled two problems: the physical parameters of the Interstate Highway system, and the financial parameters. The Bureau of Public Roads (BPR)—now called the Federal Highway Administration—had calculated that the construction cost of the National Interstate Highway System would be \$25 billion, and the construction cost of the non-Interstate highway and road system would be \$76 billion, yielding a combined total of \$101 billion. The system of non-Interstate Highway roads and highways would facilitate and add to the operations of the Interstate Highway system, and that is why it was included in the overall proposal.

It had been determined that normal highway appropriations by the Congress, should they continue on the existing trend, would produce \$47 billion in highway appropriations over the ensuing 10 years. This meant that there was a gap of

\$54 billion left (the remainder of the \$101 billion) of the Interstate Highway system et al., that still had to be financed. The pressing question was, how was this amount to be financed?

Clay and others grappled with this question. A solution that some raised, which Eisenhower also favored, was to have toll roads as a substantial part of the National Interstate Highway System. They would raise money, and that could go to paying for the additional \$54 billion cost of construction. Clay saw that as self-defeating. He said that any plan to use Federal money to construct toll roads would be “whipped before it got started.” And charging tolls on previously free roads would lead to a “revolution” in the West.

A second option proposed, was to consider the raising of general taxes, but the direction of the Eisenhower Administration would not accept any significant tax increase.

An additional option proposed was that instead of raising taxes in general, there should be an immediate increase in the specific highway user taxes, such as the two-cent per gallon gasoline tax, and like taxes on lubricants, etc., that were partially pledged for highway construction. There was objection to that.

Clay was therefore considering how the Federal government would pay for a project that would take a decade or two, to build. Clay’s solution was to issue long-term bonds.

In February 1955, Clay’s National Advisory Committee on a National Highway Program issued its final report, entitled *A Ten-Year National Highway Program*. In it, Clay and his committee outlined their financing plan for the additional \$54 billion capital budget that would be needed.

One possibility would be to have the U.S. government itself issue long-term bonds, but that would increase the official U.S. government debt, which several interests opposed.

One summary of the Clay Committee report (“General Lucius Clay: The President’s Man” by Richard Weingroff), reported:

“To finance the Federal share of the Interstate System, the Clay Committee recommended creation of a Federal Highway Corporation as an independent agency of the Federal Government to finance work ‘through capitalization of appropriated funds in accordance with accepted financial principles.’ The corporation would have four purposes:

“1. Make payments to the States for construction of the Interstate system and approved arterial connecting routes or for projects undertaken by the Federal Government in the Federal domain;

“2. Establish a credit to any State that uses State funds, or funds under State control, to build interstate segments, toll or non-toll, in designated corridors between 1955 and 1964;

“3. Finance administration, research, planning, and other purposes authorized by Congress; and

“4. Create a revolving fund to finance improvements pending receipt of payments.

“For these purposes, the Corporation would issue bonds in an amount sufficient to complete the Interstate System during a construction period of 10 years. The Corporation, with the approval of the Secretary of the Treasury, would determine maturity schedules, interest rates, and other conditions. The bonds would be secured by a contract between the Corporation and the Treasury Department to ensure the Corporation ‘will receive a certain specified amount annually as authorized by the Congress, always sufficient to meet its obligations.’ ”

Jean Edward Smith, in his biography of Clay, *Lucius D. Clay: An American Life*, stressed, “Clay initially recommended that the program be initially financed with a \$20 billion bond issue at 3% interest.”

Thus, Clay chose to set up an entity separate from the General Revenue Budget of the U.S. government, to be the instrument that would finance \$54 billion for the Interstate Highway system.

The bonds of the Corporation that would be issued, would be paid off from an earmarked fund—some or all of the two-cent per gallon gasoline tax, and any other specific user-related taxes that would be levied.

On Feb. 22, 1955, President Eisenhower delivered a message to the Congress. He stated, “Our unity as a nation is sustained by free communication of thought and transportation of people and goods. The ceaseless flow of information throughout the Republic is matched by individual and commercial movement over a vast system of inter-connected highways criss-crossing the Country and joining at our national borders with friendly neighbors to the north and south.

“Together, the uniting forces of our communication and transportation systems are dynamic elements in the very name we bear—United States. Without them, we would be a mere alliance of many separate parts.

“The nation’s highway system is a gigantic enterprise, one of our largest items of *capital investment* [emphasis added]. . . .

“Of all these, the Interstate System must be given top priority in construction planning. But at the current rate of development, the Interstate network would not reach even a reasonable level of extent and efficiency in half a century. State highway departments cannot effectively meet the need. Adequate right-of-way to assure control of access; grade separation structures; relocation and realignment of present highways; all these, done on the necessary scale within an integrated system, exceed their collective capacity.” (See *Documentation* for the full speech.)

A Buzz-Saw

The report was greeted with an hysterical reaction from some financial press. The banker-run *Wall Street Journal*, in an editorial, referred to “hocus-pocus bookkeeping,” stating

that this “bit of shenanigans” would be “a plain piece of pretense that a debt isn’t a debt.” The editorial objected to the increased Federal role; after all, “the roads we now have were built by the cities, counties, and states with but the smallest participation of the Federal Government.” Building future highways was, certainly, “a stupendous job,” but the *Journal* objected that claiming the need could be met only by “Federal planning and Federal taxes is to deny both our tradition of local government and the history of its success.”

The Scripps-Howard newspapers included an editorial that called the proposal “the gold-brick scheme devised by the committee which would hike the Federal debt without acknowledging it.” An editorial cartoon depicted a talking “\$101 Billion Road Program” carrying a hod of gold bricks labeled “Juggled Bookkeeping,” and saying “it won’t be a debt—we’ll just owe it.”

Some newspapers gave support to Clay.

In the Senate, some opponents to the plan were fierce, focussing on two points: that the bonds would cost \$11 to \$12 billion in interest over the life of the bonds, and that this was new debt.

Sen. Harry Flood Byrd (D-Va.), a fiscal conservative, and chairman of the Senate Finance Committee, said the plan was “thoroughly unsound” and an attempt “to defy budgetary control and evade Federal debt law.” He stated, “If the government can borrow money in this fashion, without regarding it as debt and without budgetary controls, it may be expected that similar proposals will be made for financing endless outlays.”

Sen. Albert Gore, Sr. (D-Tenn.) said, “it’s a screwy plan, that could lead the country into inflationary ruin.” When the Democrats won control of the Senate in the 1954 elections, Gore became chairman of the Subcommittee on Roads of the Senate Public Works Committee.

The counterparts of Byrd in the House of Representatives, many of them Democrats, were vocal against the plan.

In 1955, the measure was defeated by a wide margin in the House, but passed in the Senate.

The Compromise

The subsequent legislation worked out by the Congress set up a Highway Trust Fund. It would gather revenues from the two-cent per gallon gasoline tax. Prior to 1956, this tax had gone into the General Revenue stream of the government (half of it had been spent for highways, half of it had been spent for the general budget). Now, the full two-cent gasoline tax would be committed to the Highway Trust Fund. In 1960, the gasoline tax was raised to four cents per gallon. There either existed or soon rose up other user-fee taxes: a tax per pound on motor vehicle tires, and on inner tubes; a tax on the manufacturer’s sale price on new trucks, buses, and trailers; a tax on heavy vehicles over 26,000 pounds, and so on. These revenues also went into the Highway Trust Fund.

The revised National Interstate Highway Act passed the Congress and was signed into law in 1956. It contained within it, Title II, which was called the Highway Revenue Act of 1956. It set up the Highway Trust Fund.

The Eisenhower-Clay initiative did break down the states’ fragmented approach to highway building, setting an integrated national policy and a single large expense. It introduced the idea of a Capital Budget. Today, following the compromise, the Highway Trust Fund still does segregate its funds from the general revenue budget, but the ambitious 1956 initiative of a 13-year capital budget to construct the Interstate Highway System is largely a matter of the past; it focusses on highway planning of two-to-five-year plans.