EIR Tells Congress: Establish Federal Capital Budget for Infrastructure

Executive Intelligence Review *presented the following testimony to hearings by the House Ways and Means Committee, Jan. 23-24 on the State of the Economy.*

The political evidence of the November election's results, and the nature of the campaigns in which the new Members were elected, is that the American people want not only an end to a war policy; they also want an end to globalization and de-industrialization of their economy by "free trade," low-wage outsourcing, and deregulation. This is a strong message of the "New Politics" of the 110th Congress. It is also an urgent necessity, to forestall a severe plunge of the dollar and financial collapse of the U.S. economy.

The 110th Congress must act to reverse the ravages of globalization and deindustrialization upon the U.S. economy, before a threatening severe collapse of the dollar brings chaos to the banking and monetary system, and makes such Congressional intervention extraordinarily difficult or even impossible.

The Congress needs to intervene to protect and revive U.S. industry, and the dollar, restoring principles of fair trade and above all, launching major investments to rebuild and restore the neglected economic infrastructure of the nation: modern high-speed transport, energy and power supply, water management and clean water, flood control and navigation, public health and hospitals, and more.

Facing already very large budget deficits, the 110th Congress should establish a *Federal Capital Budget* for these urgent investments and public works. Congress can create large volumes of long-term, low-interest Federal credit through capital budgeting, based on the economic record of such modern infrastructure creating $5-7,000 of economic value in the economy for each $1,000 of such investment. It can, and must also act to stop the high-yield ("junk") leveraged debt markets from taking and looting remaining U.S. economic infrastructure through "Public-Private Partnerships (PPPs)," abetted by the extremely loose money-supply growth policy of the Federal Reserve.

These are the purposes of the Economic Recovery Act of 2006 (ERA), proposed by the Lyndon LaRouche Political Action Committee (LPAC). The idea of this legislation has been circulated by LPAC for two years, endorsed and lobbied for by scores of union locals and leaders, and by many state and city elected officials and several state legislatures (see below for supporters of ads calling for adoption of an ERA in *The Hill* and *Roll Call* on June 8, 2006). It focusses on the urgency of Congressional intervention to stop the collapse of the American auto industrial sector—by "retooling" considerable capacity in that sector for the purposes of building a new national economic infrastructure.

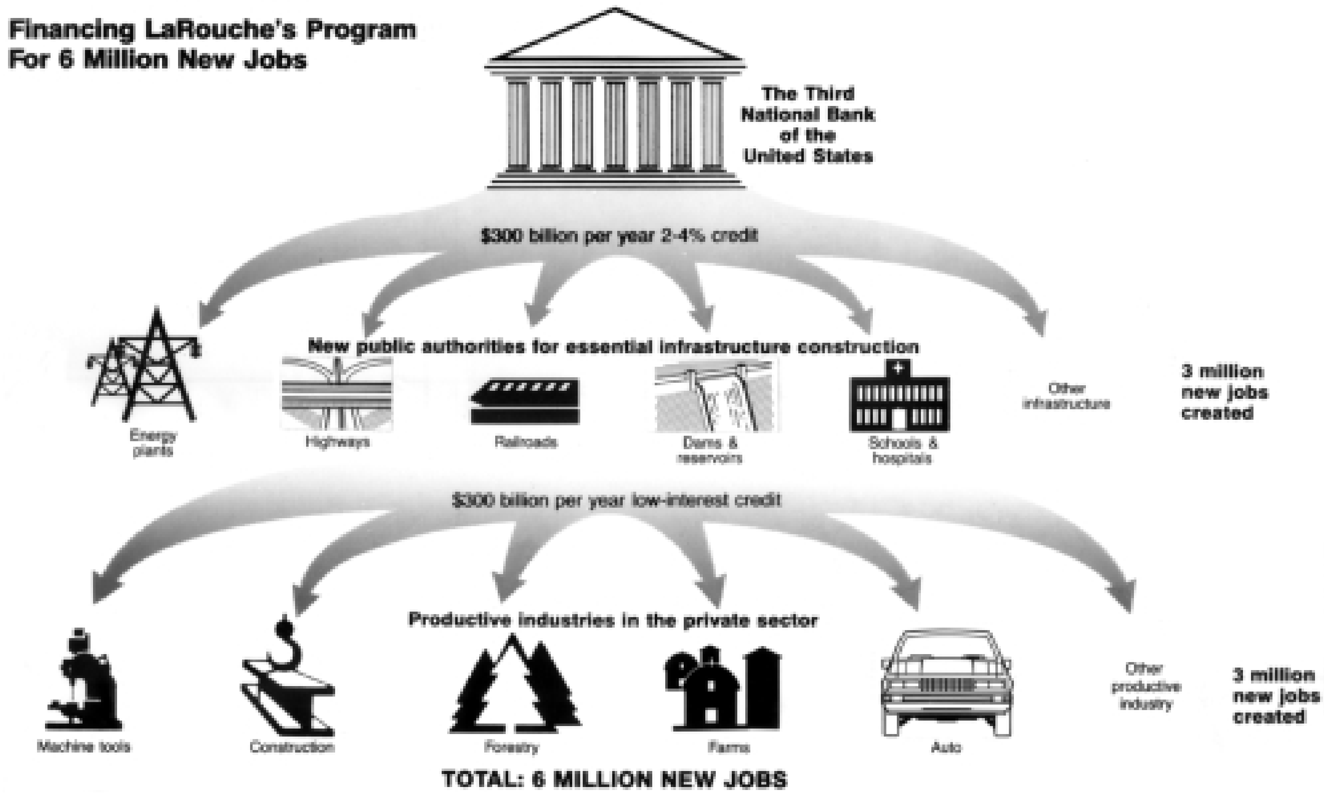
When the 109th Congress did not act, manufacturing job-loss resumed through 2005 and 2006; 90,000 jobs were lost in auto and auto-supply industries alone, which have lost 285,000 since 2000. Scores of plants closed in the auto sector, and literally hundreds of plants are now slated for closure or sell-off by the three major automakers and six largest auto-supply firms.

Combatting Globalization, Investing in Productivity

One view of the clear and present danger of globalization, current among economic thinkers in Washington, holds that the only significant danger of globalization is the huge American trade, current account, and budget deficits and imbalances it has brought. Another view, is that the sole major problem of globalization is the persistent creation of one financial bubble after another—commercial real estate, communications stocks, commodities, residential real estate, junk credit, etc. This is attributed to the huge inflows of capital to U.S. and European markets, and the ultra-loose credit and money-supply policies of Alan Greenspan's Federal Reserve (continuing today), and of the Bank of Japan, over the period of globalization, and still continued by the Fed today.

While pointing to real dangers, both ignore the central, 35-year poisoning and destruction of our economy by globalization and deregulated international trade and financial markets: the lowering of productivity. The absolute loss of 5.5 million U.S. manufacturing jobs since 1979—including the elimination of nearly half the employment in the aerospace and auto industries, the two major machine-tool reservoirs of the economy—lowers the productivity of the entire world economy.

The outsourcing of skilled, technological work to lower-infrastructure areas and countries has lowered the productivity of the industries. The re-employment of American workers at less-skilled, lower-wage jobs has lowered the productivity



of the American workforce. (Inclusively, the portion of the American workforce with a college education is actually declining in this "knowledge and information economy.") Then, the infrastructure of power, transport, energy, water management, navigation, sanitation, public health, etc. which was necessary for that lost industrial employment, is itself let go to neglect and decay, and new investments in modern infrastructure stopped. This dramatically lowers the productivity of the entire economy.

With the sinking of the housing price/mortgage bubble and threatened plunge of the dollar, we have now reached the trigger-point at which the characteristics of this trend could be expressed as a general breakdown-crisis of the economy, in the United States and internationally.

Worst, the destruction of the machine-tool capacity of industries such as aerospace and auto which are our machine-tool reservoirs—entire plants of machine-tools either destroyed or auctioned over the Internet to primarily overseas buyers—threatens to eliminate the nation's industrial capabilities for the future.

Save Machine-Tool Capacity

Without a deep and versatile machine-tool capacity, U.S. industry will no longer be capable of building the new economic infrastructure the economy requires to recover—as, for example, U.S. industry *already* has no capacity to build nuclear power plants, and *already* lacks the aerospace-industrial capabilities for Apollo Moon-landings we could make 40 years ago.

The machine-tool sector is the core of an industrial economy where scientific and technological ideas are turned into new economic reality. If the U.S. auto-manufacturing industry is destroyed, the U.S.A. becomes a virtual Third World nation overnight. The nation's machine-tool design capability, most of which is tied up in the auto-manufacturing and supply firms, is lost. The loss of the tool-making and closely related capabilities of that sector of industry would cause incalculable, chain-reaction consequences, within our nation, and also the world at large.

The loss of employment of that machine-tool design segment of that part of the labor-force, means many times that number of skilled employees out of jobs. Sixty million square feet of aerospace-defense capacity are closed and machinery auctioned off since 1990. Eighty-one hundred million square feet of auto capacity are being closed and machinery auctioned off over 2006-08, more capacity lost than in the last 30 years combined. The United States economy's consumption of machine tools is only 60% of the 1980 level, and 60-70% of that consumption is imported machine tools.

Nothing less than the nationwide "retooling" and recreation of advanced industrial capability, carried out to prepare for the war production of World War II, is the model for what the Congress must do now to build a new national infrastructure.

Cincinnati Milacron

Highly skilled machine-tool workers at Cincinnati Milacron. The machine-tool sector is the core of an industrial economy, turning scientific and technological innovation into economic reality. If U.S. auto-manufacturing and its machine-tool capability are destroyed, the U.S.A. will become a virtual Third World nation.

Infrastructure Deficits

The deficits of modern infrastructure in the United States economy have grown huge, requiring hundreds of billions of dollars of public investments *annually* for an economic recovery based on raising the real productivity of our workforce and our population. The American Society of Civil Engineers' (ASCE) estimate of $1.7 trillion in immediate infrastructure fixes needed, is well known, but does not even begin to address the need for a *new national infrastructure.*

Clean water infrastructure is the largest need, at $450 billion. The entire nation has only 1,300 miles of electrified railroad left; its power grid is falling below minimum reliable requirements, and requires $100 billion investments in distribution systems alone, which are not planned by the power industry. America's community hospitals can't meet public health needs.

Constructing a national network of high-speed, electrified railroad corridors will require $300 billion in investments, according to transportation consultants. For the land-side regions around America's ports on the East and West Coast, such new rail corridors are not just a pleasant option: They are an urgent necessity to prevent collapse or chaos of completely overloaded transport modes.

ASCE's estimated need for waterway and port navigation infrastructure—especially, lock-and-dam systems on the nation's rivers—is $125 billion, and does involve new infrastructure projects, because these systems are so old, undersized, and obsolete that hundreds of them need urgent replacement with modern technology. But overall, ASCE's estimate is the barest minimum, measuring maintenance rather than new infrastructure technologies. If our mission is to build a new national infrastructure to raise the technological level and productivity of our workforce, and the standards of our people, to 21st-Century potentials, the infrastructure deficit is several times the ASCE's $1.7 trillion figure.

A Federal Capital Budget

Facing large deficits of budget and current account, very large capital-project investment needs, and a threatened dollar collapse, the 110th Congress can think anew—of the proven methods of Federal credit issuance used for the Transcontinental Railroad and the industrial boom which followed the Civil War; for the great infrastructure projects of the FDR Presidency; and during the earlier era of Hamiltonian national banking, which first secured our new nation's debt and built up its economic infrastructure.

Congress should institute a *Federal capital budget* for important public projects. A current White Paper written by Lyndon LaRouche and published by *EIR,* "The Lost Art of the Capital Budget," explains this in detail.

The essential step is the issuance by the Treasury, of bonded credit into major new infrastructure investments which will raise economic productivity over one to two generations—issuance of government credit which is at a very low (such as 1-2%), regulated rate of interest, and for a long term, but nonetheless not as long as the term of that new infrastructure's productive, technologically advanced economic life.

As in the proposed Economic Recovery Act (ERA), Congress can authorize the Treasury to issue long-term bonds at low interest directly to an Infrastructure Corporation. By discounting these bonds for capital at Federal Reserve banks, that Corporation causes the Federal Reserve to act in the manner of a National Bank, and the credits issued to remain regulated at low-interest, and their value essentially at 100%.

Contrast the disastrous alternative of national, state, and local infrastructure being dependent on investments and privatizations from the so-called high-yield ("junk") capital markets, through private equity funds and hedge funds in "PPPs"—expecting not 1-2%, but 10% and higher annual returns on investment. These loot existing infrastructure, rather than building new. The Federal Reserve's "wall of money" policy repeatedly since the 1980s has created huge high-interest bubbles, particularly mortgage-debt-based. The U.S. banking system's assets are now 50% mortgage-based, and another 20% on loans into "leveraged" private-equity takeover markets: That banking system is bankrupt, and should be treated as bankrupt.

Federal capital budgeting by Congress directs the Federal Reserve away from feeding such speculative financial markets with "walls of money," into the function of monetizing *directed Federal credit issuance.*

The "bill of materials" for such major new infrastructure public works is produced in factories and shipyards with advanced machine-tool capacities; as demonstrated in the World War II buildup, the Manhattan Project, the Apollo Project and space programs, if the nation industry has lost or shut down such capacities, they must be recreated or "retooled." The capacity being discarded and underutilized by the automobile and related industries, as well as in aerospace industries, is the vehicle to be saved and used for this infrastructure mission. An Infrastructure Corporation can assume control of and/or lease this capacity, exactly as did the Defense Plants Corporation created under the Reconstruction Finance Corporation in 1940.

Secondly: Regional, state, and local infrastructure-rebuilding projects combine factory-built machinery and other elements of the new infrastructure, with large construction sites requiring semi-skilled and labor-intensive employment. For example, the replacement of the 19 obsolete locks and dams on the Ohio River Mainstem system alone, would generate approximately 20,000 construction-site jobs for a several-year period. This is the "CCC-like" impact of such investments on urban and rural unemployment and underemployment.

Compare the costs and real economic impact of such low-interest, long-term infrastructure credits; and compare them to the real cost ravages of "PPP" privatization of infrastructure. For example: If Congress were to authorize $2 trillion of new infrastructure credit issuance through Federal capital budgeting at $300 billion investments annually, Treasury's interest cost (net of tax recovery from the Fed) would rise toward $30 billion annually. Based on the past economic record of major new infrastructure, six million or more new jobs would be created *or saved in industry* over that time, and the new economic value added to the economy would conservatively raise Federal tax revenues alone, over a number of years, by $300 billion or more annually.

Congress can, in addition, designate revenue sources to these bonds, infrastructure user-fee trust funds, contractor lease payments for plant capacity. *The new Federal long-term debt issued can be retired over a term less than the long-term technological and productivity impact of the infrastructure built and renewed.* Thus, the $50 billion in credits issued through the Reconstruction Finance Corporation were repaid in full.

The fundamental support of this bond-credit issuance is the increased productivity, and technological and scientific level given to the American workforce and the entire productive economy by this modern-infrastructure "driver." Studies ever since the 1960s Apollo Project have shown that such high-technology infrastructure investments generate about $6 billion in direct and indirect income in the economy, for each $1 billion spent on them by government. The steadily increasing future tax revenues generated by this infrastructural investment, give the Treasury the capacity to retire these bonds as a matter of policy—*if* they are issued as long-term, low-interest special-purpose bonds not subject to short-term market speculations. This is served by the financing method of the Economic Recovery Act.

Draft Legislation

The Economic Recovery Act

This draft legislation is circulated to Congress by the LaRouche Political Action Committee (LPAC).

1. Title: THE ECONOMIC RECOVERY ACT OF 2006

2. Findings

Congress Finds the Following:

A. Under the impact of "globalization," there is a massive and ongoing loss in the machine-tool capabilities of the U.S. economy. This danger is centered in the accelerating "outsourcing" and shutdowns of plants in America's most important and versatile machine-tool industry, the auto industry. Eighty million square feet of auto capacity are being closed and machinery auctioned off over 2006-08, more capacity lost than in the last 30 years combined. Sixty million square feet of aerospace/defense capacity are closed and machinery auctioned off since 1990. U.S. consumption of machine tools is only 60% of the 1980 level; of that consumption, 60-70% are imported machine tools; much of this stock, in turn, is being destroyed or sold off overseas as plants are closed; machining vital to national security, including defense and aerospace production, has been and is being outsourced.

B. The machine-tool sector is the core of an industrial economy where scientific and technological ideas are turned into new economic reality. If the U.S. auto-manufacturing industry is destroyed, the U.S.A. becomes a virtual "Third World" nation overnight. The nation's machine-tool design capability, most of which is tied up in the U.S. auto-manufacturing and supply firms, is lost. The loss of the tool-making and closely related capabilities of that sector of industry

EIRNS/Steve Carr

EIRNS/Stuart Lewis

An abandoned mine in Missouri (left) and abandoned housing in Baltimore. Public and private infrastructure in the United States is in a breakdown crisis. Mass transportation, electric power, water and sewerage, public health, and other vital infrastructure need forceful and speedy Congressional action for investment in repair and replacement.

would cause incalculable, chain-reaction consequences, within our nation, and also the world at large.

The loss of auto and auto-parts plants means an economic disaster, approaching ghost-town proportions, for entire towns, counties, and cities, even states of the union, which are already highly vulnerable.

The loss of employment of that machine-tool design segment of that part of the labor-force, means many times that number of skilled and unskilled employees out of jobs.

C. There were 250,000 net jobs lost in the automobile manufacturing/supply sector from 2000-05, leaving a total employment at end of 2005 of 1,090,000. During 2006, the shutdown/sell-off of 67 auto plants has been announced by major U.S. automakers and the biggest parts-supply companies alone, occurring and to occur in 2006-08, with the direct and indirect loss of another 250,000 net jobs occurring and to be expected in the auto sector.

D. Accepting the reduction in the number of automobiles produced by U.S. automakers, we must replace that work immediately with a switch to other categories of technologically very high-grade products which the auto industry's machine-tool capacity is uniquely qualified to design and produce. The alternative mission for this purpose is chiefly in the category of needed, new economic infrastructure.

E. The United States suffers a worsening crisis in its public infrastructure. This breakdown is clear: in the failure of water control, transportation infrastructure, and power infrastructure in the Gulf States during Hurricanes Katrina and Rita; in the long heat-blackouts of hundreds of thousands in major cities in Summer 2006 due to failure of obsolescent power distribution networks and inadequate power capacity; in the lack of refinery capacity and dependence on oil imports; in the spread of freshwater crises throughout the Western half of the country in the past decade.

The United States lacks railroad and mass transportation infrastructure, with shrinking air travel grids; its electric power infrastructure is falling behind under deregulation; it has lost fossil water and freshwater supplies for irrigation, and has inadequate drinking water supply in rural regions; its water control—especially upstream dams—and river navigation infrastructure are obsolescent; it has insufficient port and landside port-rail infrastructure; and insufficient hospital infrastructure for any serious public health crisis. This is given only a minimal estimate in the American Society of Civil Engineers' "infrastructure report card" which estimates the need for $1.7 trillion in investments merely to repair and replace obsolescent and broken-down infrastructure.

1. Each $1 billion of Federal funding invested in new, modern infrastructure creates approximately 50,000 jobs and $6 billion in economic activity.

2. States, cities, transit authorities, airport authorities, and other entities have thousands of ready-to-go infrastructure projects, which will create long-term capital assets for the United States and which can help stimulate the nation's economy.

F. Action, by the U.S. Federal government and others, is urgently needed, to prevent an across-the-board collapse of not only the U.S. auto industry, but the counties, towns, cities, and states, and their people.

3. Purposes

Congress Adopts the Following Purposes:

A. To prevent the wholesale loss of the U.S. auto industrial sector, with its vital, large-scale, and versatile machine-tool capabilities and skilled workforce; since it is rapidly being lost, Congress must act with speed and force.

B. To reverse by Federal investments the neglect, decay, and deregulation of critical economic infrastructure of the United States; and to foster the building of projects of a new national infrastructure using 21st-Century technologies of transport, power, navigation, water purification, and others.

C. To preserve a national strategic machine-tool design and production capability and associated skilled workforce, from among auto industry plants otherwise being idled and discarded and their production outsourced by the automakers.

D. To save skilled and industrial jobs, and to create new such jobs, by retooling these idle plants and capacity, to machine and produce the *bill of materials* for infrastructure projects in power, rail, transport, water management, and energy; to create many tens of thousands of semi-skilled and unskilled construction jobs indirectly, through the construction projects involved in the building of new infrastructure.

E. Congress adopts for these purposes, the model of functioning of the Reconstruction Finance Corporation (RFC) and its amendment, the Defense Plant Corporation (DPC) Act of 1940, by which thousands of auto and other industrial plants were retooled for—at that time—defense production. Half of all auto industrial capacity was idle at the time of the creation of the Defense Plants Corporation in June 1940.

4. Titles

Title 1: Federal Infrastructure Plants Corporation. A Federal public corporation is created, the Federal Infrastructure Plants Corporation, to assume control of, and operate—directly or by contract—the discarded and unused plant-and-equipment capacity of the automobile/auto supply sector; and other unused industrial facilities, military base, or shipyard facilities.

Title 2: Infrastructure. The Corporation shall fund and carry out, and may aid other public agencies or corporations and state or local government agencies in carrying out, projects of new, modern economic infrastructure including a) passenger and freight rail transportation, including regional and national high-speed rail corridors, magnetic-levitation trains on priority routes, and light-rail and mass transit systems; b) electric power production, including third- and fourth-generation nuclear power plants, and electric power distribution systems; c) freshwater purification and desalination infrastructure, d) modern water-control and water-management systems; e) ocean ports and inland navigation freight-transport systems; f) hospitals and public health infrastructure.

Title 3: Powers.

A. The Corporation is authorized 1) to produce, acquire, and carry strategic machine tools and other industrial machinery needed to produce bills of materials for infrastructure projects; 2) to purchase and lease land, to purchase, lease, build, and expand plants, and to purchase, and produce equipment, supplies, and machinery for the manufacture of bills of materials for new economic infrastructure; 3) to lease such plants to private corporations to engage in such manufacture; and 4) to engage in such manufacture itself.

B. The Corporation may make loans to, or purchase the capital stock of any corporation for the purposes of Title 3A.

C. The Corporation is further authorized to contract with state or local agencies wishing to use idled auto plants and machinery for infrastructure projects, subject to Title 3D; or to contract with firms wishing to lease auto plants and machinery for such contracts, subject to Title 3D; or to purchase auto product lines and auto-supply product lines where necessary to prevent loss of industrial employment to foreign producers.

D. Contracting and Employment: The state, local agencies, or contractors are required 1) to maintain all plant facilities open and in repair, and at least maintain work levels, 2) to provide for preferential hiring of members of the pre-existing workforce who want to continue to work at the plant facilities, 3) to be subject to Davis-Bacon rules for Federal contracting, and 4) to spend 90-95% of issued funds within two years of commencement of the project.

Title 4. Engineering Survey of Plants and Facilities. An engineering survey of these plants and other facilities shall be carried out by the U.S. Army Corps of Engineers (USACE) within six months of enactment of this Act, to determine and plan for their potential employment in producing the bills of materials for modern infrastructure projects.

Title 5: Board. The Corporation's Board of Directors shall include the President; the Secretary of the Treasury; the Deputy Secretary of the Army for Civil Affairs; and the Secretaries of Transportation, Agriculture, Energy, Education, Labor, Housing and Urban Development, and Health and Human Services.

Title 6: Funding of the Corporation. The Corporation shall be provided a capital-budget stock by issuance of 2%-interest, long-term special-purpose bonds by the Treasury to the Corporation, for discounting at Federal Reserve banks. The corporation shall be under the authority of the Secretary of the Treasury.

A. The authorization of issuance of credit from the Treasury, through issue of special-purpose bonds to this Corporation, is up to a limit of $200 billion in each of Fiscal Years 2007 through Fiscal 2011; and $300 billion in each of Fiscal Years 2012 through 2016.