

## A Trust Fund for America

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Thomas Jefferson committed the U.S. to acquire the Louisiana Territory from France for \$15 million. In so doing he doubled the size of the U.S., guaranteed navigation on the Mississippi, and opened the American West. But Jefferson, Madison, and Congress were understandably worried about the size of the commitment. After all, total revenues from import duties then were only \$12,280,000. Nevertheless, Congress approved the purchase and the greatest investment in American history was completed when a British bank and a Dutch one underwrote the bonds required to pay Napoleon on schedule. In doing so, they were confirming America's creditworthiness and recognizing the huge present and future value of the assets acquired by America.

Under today's budget rules, the Louisiana Purchase would have been regarded as a budget-buster and the Congress might well have turned it down. As a result, Jefferson might have had to go to war with France to accomplish the same purpose, an alternative that was under consideration at the time. This may be an extreme example, but it illustrates a much-overlooked reality -- borrowing for investments is different from borrowing for recurring expenditure and should be treated as such. This fundamental reality is sadly missing in the current debate about deficits and economic policy.

The partisan crossfire over deficits has two poles -- the one marked out by Vice President Dick Cheney's remark that "deficits don't matter" -- and the position associated with former Treasury Secretary Robert Rubin, that current deficits are unsustainable and that drastic spending and tax changes are urgently required. Both sides are likely to remain firmly entrenched in their respective positions, despite the risk of a dollar crisis if current policies are continued over the next few years. However, regardless of which side of this debate you subscribe to, an even more fundamental crisis could grip our economy if we turn away from the investments that determine our future standard of living. We risk balancing the budget but leaving our long-term growth needs unmet.

Public investment has, by tradition, meant infrastructure: Roads, trains and bridges, public transportation, schools, etc., have provided the private sector with the complementary investments that improve business productivity and improve our standard of living. Largely the product of a federal-state-local partnership, it has been badly neglected over the years. A biannual "balance sheet" provided by the American Society of Civil Engineers, grading the categories of infrastructure from schools to sewers, indicates a need for \$1.6 trillion over 5 years to bring national infrastructure up to reasonable standards; that need increases by \$300 billion every two years.

In addition to traditional physical capital, an even more important component of our infrastructure is our intellectual infrastructure. In the last two years, Arnold Schwarzenegger has asked his legislature for \$3 billion to finance stem-cell research and Jennifer Granholm has asked hers for authority to sell \$2 billion of Michigan state bonds to finance research aimed at improving the competitiveness of its auto industry. By doing so, Govs. Schwarzenegger and Granholm are doing what the private sector does daily -- financing R&D. Corporate America does this mostly by equity; the governors, lacking the ability to issue stock, propose to do this with state debt. That is entirely appropriate. We cannot compete with China by making cheaper T-shirts or forcing

them to revalue the yuan by 10%. We can only do so by fighting tooth and nail for supremacy in education, intellectual capital and R&D, and both the federal government and the States must play a role in that fight.

In 1865, when Lincoln created a system of land grant colleges (which ultimately totaled 213), he initially provided America with 75% of its engineers; when FDR proposed the GI Bill, he allowed millions of young Americans who would not have had a college degree to become the source of our technical and industrial power. Through the years, the Bill has provided \$70 billion in aid to veterans. Can anyone doubt that the investment has been returned manyfold? Eisenhower continued the tradition of federal involvement in infrastructure with the Federal Aid Highway Act, which generated millions of jobs and created a suburban economy now basic to the U.S., with enormous incremental value.

Not much of this found its way onto a federal balance sheet. The budget does not recognize assets; it only recognizes expenditures and liabilities. The Louisiana Purchase would have been reflected by the debt issued to Napoleon and have resulted in a large deficit. Land grant colleges and the education of GIs were treated as simple expenses. It is bad enough to try to deal with large and growing deficits created by ongoing expenditures, but the process will produce even worse choices if important, albeit intangible, assets are carried as liabilities.

A federal capital budget would help correct this problem, but would be so fraught with political difficulties that it is not worth the attempt. Yet there is a recent development which suggests a remedy: the return of the 30-year Treasury bond. Long-term bonds should finance capital assets and their issuance should be dedicated to that purpose. Even longer maturities than 30 years can be envisaged; corporations and governments have issued up to 50-year bonds.

To help deal with our shortage of public capital investment, the Congress should authorize a trust fund of up to \$100 billion, to be financed over a five-year period by special 50-year Treasury bonds created for that specific purpose. The fund should be used to co-finance high priority state and local investment programs, including physical infrastructure and projects to create intellectual property. Tight outside controls will be applied to the operations of the fund, and it should also be subject to the federal debt limit.

In addition to cutbacks on infrastructure, globalization puts pressure on domestic employment. This impacts heavily on certain industries like the auto industry, and on the states where they are concentrated. An infrastructure trust fund could be helpful in making investments on a regional basis where appropriate. Creating such a fund would also allow us to redesign programs that deliver these investments, balancing new construction with more effective life-cycle management. A special commission under the aegis of the Center for Strategic and International Studies is rethinking program delivery and should provide new directions soon. In the meantime it is counterproductive to starve long-term investment because of presently excessive recurring spending; over the long run it only makes our economic challenges worse by slowing the creation of national wealth.

Jefferson, Lincoln, FDR and Eisenhower proved that public investment could generate vast returns. The federal budget should be a tool to encourage national investment instead of writing it off. Let us adopt a different perspective of our national wealth and how to increase it.

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