

## The Right Plan To Tackle America's Twin Crises

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President Barack Obama has launched the US midterm campaign season with a series of major economic initiatives. They include plans to fix America's crumbling infrastructure, to increase and make permanent research and development tax credits, to create new incentives for small business and to extend the Bush tax cuts for the middle class. Each idea has been met by a predictable chorus of predictions that they could not pass in the current US political climate. While the environment is indeed bleak, the economic situation confronting America warrants a different response.

The US faces not one but two economic crises. One is that the current slump could easily take a turn for the worse. The second is even more unsettling: a long-term competitiveness crisis that, if unaddressed, raises questions about the country's ability to create jobs, attract investment and maintain its international leadership. For both these reasons, it is critical that America's political classes set aside partisanship and focus on taking concrete action now – even if it comes when such political courage (which is to say responsible leadership) is most difficult, in the last months of an election cycle.

All of the president's ideas are solid ones with broad potential benefits. In our view, among these, an infrastructure bank is particularly promising and has been misunderstood in many of the initial responses. It is so central to what the US requires at present that voters and leaders in both parties need to examine it carefully and find a way to bring it to fruition.

In his speech in Milwaukee on Sunday, Mr. Obama described an effort that over six years would produce 150,000 miles of roads, 4,000 miles of railways and 150 miles of runways. The initiative would also undertake the long overdue step of upgrading America's air traffic control system.

Given that many of America's highways date to the Eisenhower administration or before, and that the air traffic control system is now dangerously congested and requires airlines to fly routes that burn fuel needlessly and waste time, it is clear that in purely practical terms the US needs the president's initiative. In fact, previous administrations have been nothing less than derelict in their duties to maintain this infrastructure. Further, such an investment is one of the surest ways to create good American jobs at a time when such a boost to US employment is desperately needed.

Some critiques have argued that the programme is too small. While we would welcome a larger effort, these arguments fail to understand one of the great benefits of approaching this via a bank structure. If the US pays in \$50bn as proposed, the bank itself can use standard means of leveraging that capital to produce perhaps four or five times that amount in lending. If the programme is successful, one can imagine a series of additional self-sustaining institutions doing similar work in areas such as energy or communications infrastructure.

Other early responses cast the proposal as yet another "stimulus" and as "too costly". It is important to understand the distinction between spending and investment. Whereas one can debate the merits of programmes that simply pay government salaries, this one would produce returns on many levels. The bank would be paid back and make some profit on its lending. The six-year structure of the plan would give businesses the confidence to invest alongside the bank, thus enhancing the multiplier effect such programmes typically produce. That plus the leveraging could easily turn a \$50bn capitalisation into \$300bn or \$350bn in value created. These projects will also foster growth in the tax base. For all these reasons, it is a mistake reflexively to decry this as more stimulus when it is an entirely different breed of project – self-sustaining, revenue-creating, competitiveness-enhancing.

Business leaders understand the idea of treating this kind of investment programme differently from spending on operations, because virtually all companies budget that way. They should also recognise that investing in infrastructure is an essential prerequisite to restoring competitiveness and growth. For this reason, we expect they will be among the most natural supporters of the president's plan. If political leaders have ideas for making this bank stronger or more responsive, all the better. But we should recognise now that the costs of failing to pursue this project and the president's other sensible initiatives at this fragile moment will be far greater than those associated with going ahead with them.

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