Bailouts for Bridges

Challenging the stimulus for rebuilding urban infrastructure

Dear President Obama:

The roof on our condo is leaking; the furnace is more than 20 years old; the paint is chipping; and, quite frankly, we owners are simply not able to keep up with mowing the lawn and gardening without some part-time help. Thus we are asking to be included in your economic stimulus plan to get our economy—and our "homestead"—moving again.

After a grimace, frown or chuckle, one would hope that the above fictitious appeal would be immediately ignored. But part of the president's economic recovery program, as well as what is on the lips of every mayor and governor, is money for "infrastructure." Opposing this feel-good term puts one in the camp of those who oppose apple pie or wouldn't want to see the Chicago Cubs in the World Series in their lifetime. Yet it is far from obvious that billions of dollars allocated to repairing highways, restoring government buildings and shoring up bridges and train tracks in cities is good public policy.

Chicago Model City, on display June 11 through Nov. 20 at the **Chicago Architecture Foundation**, 224 S. Michigan Ave.

Do I think that many of Chicago's bridges and tracks are in need of repair? Probably. But even if this is true, this does not automatically call for a connect-the-dots plan to spend federal dollars—largely obtained by borrowing from China, Japan and anyone else we can hit up, or ultimately by all of us as taxpayers—to address these needs. One might want to retrace our steps and ask how we got into this sorry state in the first place with respect to our public capital.

By Allen R. Sanderson

First, compare private with public allocation decisions. A house or condo owner has an incentive to keep the place up. A leaking roof or an old furnace can cause structural or internal damage, making the place less enjoyable to live in and certainly reducing the resale value when it goes on the market. But the homeowner is unlikely to let that happen. The family will set aside money for repairs and replacements—an implicit capital budget. Or to the extent that this is simply a case of being overextended—the apartment or the yard is too big—we would regard those as mistakes for which this household, not American taxpayers, bears sole responsibility.

A private university functions much in the same way. At some point "deferred maintenance" costs come home to roost; classrooms, laboratories, computer systems and dormitories will need to be renovated and upgraded. Capital budgets are established and funds set aside for precisely those times and purposes. The same is true for businesses.

What happens when we turn to the public sphere? It is not primarily an issue of a city, county or state government entity being starved out and desperately needing more resources, but rather the underlying incentive structure. There is every incentive on the part of state or local officials to gobble up any excess funds for immediate expenditures for their pet projects and to cater to their constituents. For them, there is no such thing as too many senior citizen centers, golf courses or overpasses. And projects that include ribbon-cutting ceremonies that can be photographed will have priority.

In economic jargon, government officials have high discount rates: to remain in office requires explicit up-front flurries of activity, no matter how foolish the projects are or how large later financial obligations may be. Tucking away dollars for inevitable repairs and restorations is prudent policy, but not politically attractive—the benefits would, after all, accrue mainly to some other officials a few elections down the road, not to the current incumbent.

One of the economic terms that has migrated from textbooks to newspaper stories in the last two years is "moral hazard." In providing assistance and guarantees to failing banks or other commercial enterprises, the Federal Reserve or the Federal government must ensure that as a byproduct of this relief they do not create incentives for those who have acted irresponsibly to act irresponsibly again and again. The same holds true with respect to commitments to schools, transportation networks and other public capital under the "infrastructure" umbrella.

We must discourage public officials from continuing to expand their fiefdoms and paint over their mistakes just as we would for our homeowner above or the driver who didn't bother to change the oil in the family car. Otherwise, a generation from now we will be engaging in these same "Groundhog Day" exercises, in good economic times or bad. And we will run the risk of continuing to make these mistakes. ❑