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Austerity Won’t Work if the Roof Is Leaking

By ROBERT H. FRANK

I RECENTLY spent a week in Berlin, where the entire city seemed under construction. In every direction, cranes and other heavy equipment dominated the landscape. Although many projects are in the private sector, innumerable others — including bridge and highway repairs, new subway stations and other infrastructure work — are financed by taxpayers.

But wait. Hasn’t Germany been one of the most outspoken advocates of fiscal austerity after the financial crisis? Yes, and that’s not a contradiction. Fiscally responsible businesses routinely borrow to invest, and so, until recently, did most governments.

Lately, however, fears about growing public debt have caused wholesale cuts in American public investment. The Germans, of course, yield to no one in their distaste for indebtedness. But they also understand the distinction between consumption and investment. By borrowing, they've made investments whose future benefits will far outweigh repayment costs. There's nothing foolhardy about that.

The German experience suggests how we might move past our own stalled debate about economic stimulus policy. In the aftermath of the economic crisis, the policy discussion began with economists in broad agreement that unemployment remained high because total spending was too low. Keynesian stimulus proponents argued that temporary tax cuts and additional government spending would bolster hiring. Austerity advocates countered that additional government spending would merely displace private spending and that we already had too much debt in any event. And the debate has languished there.

A preponderance of evidence suggests that Keynes was right. But as the German experience illustrates, progress is possible without settling that question. The Germans are investing in infrastructure not to provide short-term economic stimulus, but because those investments promise high returns. Yet their undeniable side effect has been to bolster employment substantially in the short run.

Not all German public investments have met expectations. Berlin's new consolidated airport, for example, has suffered multiple delays and cost overruns, and parts of the city's recently constructed central rail station are to have major repairs. But private investment projects suffer occasional setbacks, too, and no one argues that businesses should stop investing on that account.

The Germans didn't become bogged down in debate over stimulus policy, and they didn't explicitly portray their infrastructure push as stimulus. But that didn't hamper their strategy's remarkable effectiveness at putting people to work. The unemployment rate in Germany, at 5.3 percent and falling, is now substantially lower than in the United States, where it ticked up to 7.6 percent last month. (By contrast, in March 2007, before the financial crisis, the rate in Germany was 9.2 percent, about five percentage points higher than in the United States.)

A prudent investment is one whose future returns exceed its costs — including interest cost if the money is borrowed. Opportunities meeting that standard abound in the infrastructure domain. According to the American Society of Civil Engineers, the nation has a backlog of some $3.6 trillion in overdue infrastructure maintenance. No one in Congress seriously proposes that we just abandon our crumbling roads and bridges, and everyone agrees that the repair cost will grow sharply the longer we wait.

The case for accelerated infrastructure investment becomes more compelling with our economy still in the doldrums. That's because many of the needed workers and machines are now idle. If we wait, we'll need to bid them away from other tasks. Also because of the sluggish economy, the materials required for the work are now relatively cheap. If we wait, they will become more expensive. And long-term interest rates for the money to pay for the work continue to hover near record lows. They, too, will be higher if we wait.

Austerity advocates object that more deficit spending now will burden our grandchildren with crushing debt. That might be true if the proposal were to build bigger houses and stage more lavish parties with borrowed money — as Americans, in fact, were doing in the first half of the last decade. But the objection makes no sense when applied to long-overdue infrastructure repairs. A failure to undertake that spending will gratuitously burden our grandchildren.

In 2009, austerity proponents argued against stimulus, predicting that the economy would recover quickly and spontaneously. It didn't. Later, they said we tried stimulus and it didn't work. But in the face of a projected $2 trillion shortfall in the spending needed for full employment, Congress enacted a stimulus bill totaling only $787 billion, spread over three years. And much of that injection was offset by cuts in state and local government spending.

Now austerity backers urge — preposterously — that infrastructure repairs be postponed until government budgets are in balance. But would they also tell an indebted family to postpone fixing a leaky roof until it paid off all its debts? Not only would the repair grow more costly with the delay, but the water damage would mount in the interim. Families should pay off debts, yes, but not in ways that actually increase their indebtedness in the longer term. The logic is the same for infrastructure.

Austerity advocates, who have been wrong at virtually every turn, are unlikely to change their minds about stimulus policy. But with continued slow growth in the outlook, it's time to reframe the debate. Our best available option, by far, is to rebuild our tattered infrastructure at fire-sale prices. If the austerity crowd disagrees, it should explain why in plain English.

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