

**Testimony of Miles S. Rapoport
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United States House of Representatives
Committee on Financial Services
Hearing on “The Role of Public Investment
in Promoting Economic Growth”**

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Chairman Frank and Members of the Committee,

I deeply appreciate the opportunity to be with you today, and thank the Committee for turning its attention to this critical issue. To introduce myself briefly, I currently serve as the President of Demos: A Network of Ideas and Action. Demos is a non-partisan policy and research center founded in 2000. We focus on problems of democratic participation and economic opportunity, and on the enormously important question you are considering today: the proper role of government in our society and in our economy. In the 1980's and 90's, I was in state government in Connecticut, serving as Secretary of the State, but also for ten years in the Connecticut legislature, where I was a member of the Finance Committee. The role of public investment was central to all that experience.

As a legislator in Connecticut, I took part in vigorous debates over public investment. In some cases we were dealing with the results of sustained underinvestment – the all too common pattern of crisis and catch up. I was a freshman legislator when the Mianus River Bridge in Greenwich collapsed, killing several people and hobbling transportation on the I-95 corridor for months. The investigation afterward revealed years of “deferred maintenance” due to cost cutting within the Transportation Department.

In other cases, Connecticut was more forward-looking. In the early 1990's the state committed itself to an ambitious initiative, known as “U Conn 2000,” in which a decade's worth of sustained investment had a major impact, enhancing the university's reputation, attracting faculty and research grants, and increasing enrollment from in-state as well as out-of-state students.

Ten years ago, the city of Hartford was in major economic difficulty and social crisis. There, too, significant state investments – in arts and culture, school construction and funding, a convention center, improved transportation – made a huge difference; and through its commitment, the state helped inspire a parallel infusion of private capital. Together, this has resulted in a significant increase in jobs, economic activity, housing of various kinds, and arts and entertainment venues – in short, it has had an enormously important and salutary effect on the city of Hartford.

These examples helped shape my views on public investment. They were my education in what happens when America fails to invest in the public structures that under-gird our economy and quality of life; and my education in the leading role that public investment can play in economic development.

Beyond the value of any particular form of public investment, I believe it is important to restore a broad understanding of the role played by public investment and the public sector in our economy and the quality of our lives. The prolonged prosperity that led our nation out of World War II and created America's signal achievement—a broad and vibrant middle class—was accomplished with policies that included major public investments. VA and FHA mortgages helped millions of young families buy homes. Funding from the GI Bill, and later from Pell grants and Stafford loans, helped additional millions of young Americans finance their education; the farsightedness of many state leaders allowed public university systems to expand and to accommodate hugely

increased numbers of students. All of these public investments created opportunities for young families to get a leg up and build a future for themselves and their children.

Unfortunately, this commitment to investing in shared prosperity has waned. Over the past thirty years, public investment has been systematically devalued. This has been less a financial shift than an intellectual one. There has been a sustained and relentless critique not only of government's excesses, but of government itself. The ideals of the marketplace have been elevated and extended into arenas previously occupied by an understanding of a shared common good. In his 1996 book, *Everything for Sale*, Robert Kuttner points out that in the notion of the "mixed economy," which was ascendant through the early 1970's, "Government intervened to promote development, to temper the market's distributive extremes, to counteract its unfortunate tendency to boom-and-bust, to remedy its myopic failure to invest too little in public goods, and to invest too much in processes that harmed the human and natural environment." However, in the 70's and 80's, this notion faded, and "newly self-confident conservative economic theorists... became the intellectual champions of privatization, deregulation, and liberation of the global marketplace. It all boiled down to one very simple core precept: market is better." The intellectual case had a powerful wind at its back from interests that expected to benefit – and did benefit – with this exaltation of the private sphere over the public.

All of this has left Americans with a very negative view of government, which has deeply impacted the climate in which public-investment decisions are made. Careful research

undertaken for Demos by the FrameWorks Institute showed that people have two dominant images of government, both negative. The first picture is of politicians fighting and attacking one another; the second picture is of an ill-defined bureaucratic monolith that has little to do with people's daily lives. Many Americans see government as an entity that exists to tax them for the sake of others. Most people give little conscious thought to the vast number of ways in which, every day, government, properly run, affects them – through the water they use and drink, the solidity of the sidewalks they traverse, the safety of the food they eat, the integrity of the courts they rely on for the resolution of disputes, the security of the banks in which they deposit money, the responsiveness of fire departments and other emergency services. It is a very long list.

Because of this systematic devaluing of government, we are caught in a vicious cycle of distrust, which makes it difficult for people to see the benefits of public investment, and thus contributes to continued underinvestment in the public structures that allow people to move forward in our country. The consequences have been severe, not only in the failures of physical infrastructure, but in everyday human terms. Among many, let me name three.

The first is inequality, which has increased dramatically in America over the last thirty years. I believe this is a direct consequence of the shift from public investment to private - from public-good values to market values. The rewards of private investment have gone to a small number of people, who have pulled far ahead of the rest of us. It is by now a familiar tale - the top 10% of Americans increasing their share of personal income from

about 30 percent in the postwar era, and as recently as the mid-1970s, to 46 percent by 2004.ⁱ Meanwhile, the share of income going to the bottom 60 percent has plunged – from 32.1 percent in 1967 to 26.6 percent in 2005.ⁱⁱ Is this connected to the lack of public investment? I believe it is.

The second consequence is the highly disturbing fact that for the first time in recent American history, the next generation will not be, as a whole, better off than the previous one. This is vividly laid out in the book, *Strapped*, by Demos Economic Opportunity Director Tamara Draut. If you compare today's young Americans with my generation, she shows, it has become far more difficult - unless your parents are well-to-do - to achieve the hallmarks of middle class adulthood—getting a college degree and paying off student loans, buying a home, having health insurance, and having children. In each of these areas, with the exception of child care which was entirely in the private domain, public policies and public investments were a huge assist to families getting started. In each, our investments have declined significantly.

The third consequence is felt in those particular areas of life where – if we could look at the question with open minds – Americans would realize that government is likely to achieve important economic goals not just more equitably than private markets, but more efficiently. Health care is perhaps the clearest, and certainly the most pressing, case. Public Medicare is enormously more efficient than its private counterparts, with far fewer administrative costs. The VA hospital system, with its efficiencies of scale, long-standing patient relationships, and comprehensive care, does a better and more cost-

effective job than its fragmented private sector counterparts. But in the health-care debate thus far, our market-oriented blinders have kept us from learning these lessons.

Now I want to turn to four specific realms in which I believe public investment could make a major difference, improving quality of life, helping people address significant problems, and boosting our economic performance.

The first is early childhood. I am thinking particularly of programs for children born into disadvantaging circumstances. Study after study has shown that investments in such programs have tremendously beneficial effects on the future possibilities of young lives; when we invest in early childhood, we invest in economic productivity, and we get a superior rate of return. The work of Nobel Prize-winning economist James Heckman shows that investment in early-childhood programs gives children a much larger chance to succeed. There are costs - to children and their families, and to the society at large - associated with learning difficulties, medical problems, truancy, and, of course, crime and involvement with the criminal justice system. All these costs can be significantly reduced through early-childhood investment. From a strict income-generating ability standpoint, according to Heckman, such programs can increase earnings by 15-17% for the children who receive them.

Another strong candidate for investment is in making college affordable. If we know anything, it is that education is increasingly a requirement for people to succeed in the workforce, and for our economy to compete in the global arena. Yet, a large number of

students are either avoiding post high school education altogether, or are graduating with enormously burdensome levels of college-related debt. According to recent studies, 168,000 academically qualified students don't attend college at all because they can't afford it; and financial considerations lead many others to choose two-year community colleges over four-year schools. This is in significant part a direct result of the declining investment in financial assistance. The Pell grant, which used to cover three-quarters of the costs of attending a public university, now covers only about one-third. Meanwhile, grants have largely been converted to loans, which are a much less helpful start. At the state level, public investment in higher education has been on a steady decline - a major reason for the rapidly increasing cost of tuition at state-supported schools. Since 1980, tuition at public four-year universities has more than doubled, after adjusting for inflation.

The third potential area of investment is in expanded national service. The benefits, I believe, would be manifold. A multi-faceted commitment, with new opportunities for service in such programs as Teach for America and the Peace Corps - and, more broadly, in social service and health care and environmental sustenance - could yield huge benefits for communities and people in need, both here and abroad. It could provide training and job-relevant experience for a cohort of young people coming into the job market. And it could engage a generation of youth eager to work for the common good, in ways that would last a lifetime. Neither private investment nor charities can or will meet these public needs at a scale that is possible and desirable. But public investment can, and should.

Finally - and this is an area of personal experience for me – I want to talk about making needed public investment in our democracy itself. Elections in this country have been run on a virtual shoestring, and we have paid a heavy price, in confusion and lost public confidence in our election system. The Help America Vote Act was a good step forward, but it was not enough and can't be viewed as a one-shot remedy. The patchwork of laws, rulings, and equipment-purchasing decisions - with private companies lobbying state-by-state and county-by-county for each of their secret technologies - has all of us on edge about procedural chaos every time a major election approaches, and has voters in different jurisdictions receiving different levels of access and security. We need a strong national agency, with serious investment in research, testing, standard-setting, training, and enforcement, to put American elections on a firm and high-functioning basis.

These are just a few of the policies that embody what public investment, applied to human capital and intellectual capital as well as to roads and bridges, can do. But what is even more important is that we work to rebuild an understanding public investment's role in our economy and in the lives of the people that the economy is intended to serve. We can no longer afford the luxury of under-investing in the public sector, while private investing soars and its returns accrue in such large numbers to so few.

Our nation's future, and that of its people, depends on a set of public structures that underpin the success of our businesses, our communities, and our citizens. Those structures—whether they are scientific research programs, levees, bridges, schools,

colleges, or children's programs— promote the common good and shape our common future. But they can only do their job if they are maintained and improved with public investment. We need to reverse the undervaluing of public investment and of government's overall role, and this committee's hearing today is an important part of that conversation. I thank you for allowing me to be a part of it.

ⁱ Thomas Piketty and Emmanuel Saez, "The Evolution of Top Incomes: A Historical and International Perspective, American Economic Assn. Papers and Proceedings May 2006

ⁱⁱ U.S. Census Bureau, Historical Income Tables Households, Table H-2, <http://www.census.gov/hhes/www/income/histinc/h02ar.html>, accessed February 2007.