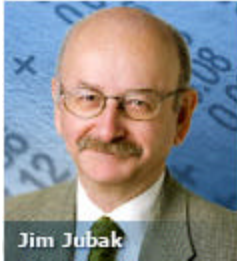


US must build its way out of debt

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We're behind in the global competition to improve infrastructure. Spending to catch up is the best way for the US to overcome its debt and save Americans' standard of living. There's a global race to build more roads, ports, power stations, airports, railroads and industrial infrastructure. To the winners go the prizes: more jobs and a rising standard of living. How's the United States doing in this race? Well, it would be hard to call the United States a front-runner, that's for sure. At the moment, we're being out-planned and out-spent by some of our biggest economic competitors. Fortunately, it's a long race; there's still time to turn things around. It's critical that we do. The increase in productivity that more-efficient infrastructure can provide is the least painful way for the United States to reduce its mountain of debt to a sustainable level. The only alternative "solution" I can see is painful: increases in formal and informal taxes that would further reduce U.S. productivity and standards of living. (For more on that debt -- and the higher taxes necessary to support it -- see "U.S. deep in debt and still digging.") In this column, I'm going to give you a global infrastructure score card, explain why investment in infrastructure is essential to increasing productivity and identify five stocks to buy -- when this market is safe for buyers again -- to take advantage of this global trend. The score

Here's what some of our biggest global competitors are planning:

China intends to spend \$160 billion on its railroads over the five years that end in 2010. By then, the country will have 57,000 miles of railroad in operation, an increase of 23% from 2005. China projects an additional \$17.4 billion in capital spending on the country's airports. The country had 32,000 miles of toll expressways at the end of 2007; the goal is 42,000 miles by 2020.

India, which has lagged behind China for a decade, is racing to catch up. The Indian government has set a target of \$500 billion in spending on roads, railroads, ports and airports over the five years that end in 2012.

Russia may have set the bar highest. The Kremlin wants to invest a trillion dollars by 2020. According to President Vladimir Putin's 2007 state-of-the-nation address, \$480 billion would go to expand electricity production alone.

Performance is downright feeble in some areas. Most of the federal budget for transportation comes from a gasoline tax. That was set at 18.4 cents a gallon by Congress in 1993 and hasn't been raised since. No wonder the federal Highway Trust Fund is short of cash. For fiscal 2009, projected highway revenue will fall 32% short of the funding provided in fiscal 2008. A May 2007 study by the Urban Land Institute and Ernst &

Young said 83% of the transportation infrastructure will be unable to meet the demands of the next 10 years.

In other areas, the United States is competitive -- barely. Utilities have upped their spending to improve the aging electricity grid to \$9 billion annually. The U.S. Department of Energy will throw in a mere \$9 million over the next five years to finance research into new technologies. That's quite a bit less than the \$35 billion that China's No. 1 grid operator, State Grid Corporation of China, has said it will spend on transmission facilities in 2008. But then, China is building a national grid from scratch, while the U.S. is upgrading an existing system. There are a few bright spots. The U.S. railroad industry, thanks to recent profitability, has reversed direction and is laying new track again after years spent ripping it up to reduce costs. BNSF Railway (BNI, news, msgs), for example, spent \$2.25 billion on capital investments in 2007. That's a 30% increase from 2003. Not investing will cost more

Why is investing in infrastructure so important?

First, because not investing in infrastructure raises costs and makes an economy less efficient.

Sometimes that's easy to see, as in the recent debacle where the need to inspect the wiring bundles on older planes produced massive groundings and delays for travelers on Delta Air Lines



Oil prices hit a new high on word that production in Russia fell 1% in the first quarter. If Russia doesn't invest in new production, oil prices will go even higher, MSN Money's Jim Jubak says.

Sometimes the impact is more subtle -- but even larger. For example, in 2005 (the most recent estimate available), traffic congestion in U.S. cities cost the economy \$4.2 billion in lost hours and 2.9 billion gallons in wasted fuel. That adds up to a \$78 billion drain on the U.S. economy, according to the Texas Transportation Institute. In that year, the average peak-period driver spent an extra 38 hours on the road because of congestion. The effect of insufficient investment in infrastructure over an entire economy adds up to thousands of lost jobs and billions in lost economic activity. A 2005 study of the Portland, Ore., economy, for example, said traffic congestion will cost the area 6,500 jobs and \$844 million in economic activity by 2025. The study by the Economic Development Research Group found, for instance, that traffic congestion had caused OrePac, a regional building-materials distributor, to increase its inventory by 7% to 8% to make up for transportation delays.

Second, investing in infrastructure creates a competitive advantage that sucks business and jobs into a local, regional or national economy. Look at the global race to build the most efficient port. Hong Kong's container port had long been the busiest in the world,

thanks largely to its efficiency. Three years ago, it took only 13 to 14 hours to unload and then load the average containership. Every hour that a ship is tied up at a dock -- and every hour its cargo sits on board, undelivered -- costs the shipper and the shipping company money, so it's easy to understand Hong Kong's appeal. But mainland China ports such as Shanghai and Shenzhen were able to take over first place in global container traffic, thanks to much lower labor costs. So Hong Kong struck back. There was no way it could match the labor costs in Shanghai or Shenzhen, but the port could invest in new, bigger cranes. Today, it takes only 10 hours to turn around a containership in Hong Kong.

U.S. ports are players in that port infrastructure race. For example, the port of Charleston, S.C., recently bought four state-of-the-art cranes from Shanghai's Zhenhua Port Machinery. The cranes are big enough to handle two containers at a time, so they can move more than 40 containers an hour. That's a huge edge in efficiency over the 30 moves an hour that are the average at many large U.S. ports. But state of the art doesn't last long in this global economy. Zhenhua Port Machinery's newest models can lift three containers in one grab, making them 20% more efficient than the company's other cranes. The first of those new cranes went into operation at container terminals in Shenzhen.

Factors in our favor

The need for constant change is actually good news for the United States, which has been slow off the block in many infrastructure sectors. In today's global economy, no competitor that can scare up the cash is out of the race, and it's possible to use new technology to leapfrog today's leaders, just as China, Singapore, South Korea and Taiwan have leapfrogged older economic powers.

And the United States does have a couple of factors working in its favor in the global infrastructure competition. At times, it can seem like a market economy without much top-down planning is at a disadvantage to those economies that issue five-year plans