Thank you, Jim. After an introduction like that, I feel I should stand up, smile, and sit down, to avoid having the listeners think, as I talk, that they’ve been victims of a bait-and-switch scheme. Actually, though, I’m really pleased that I’ve been invited to address this particular subset of the set of April 2017 Michigan graduations. That’s because, as people who have been steeped in the economists’ way of thinking, I can talk to you about a significant issue of public policy, rather than just recounting some version of the more usual “go forth and do both good and well” speech.

What I will spend a few minutes talking about is the decline of public goods, both in the United States and internationally, and why we should be concerned about it. And, at the end, I’ll even explain why I believe you are an appropriate audience to hear this lament. First off, what are public goods? The formal definition is goods that are non-excludable and non-rivalrous. In plain English, that means that everyone can take advantage of them and that one person’s consumption does not reduce their availability to others.

Many of these goods are provided by government and funded with our tax dollars, such as the highways that crisscross the country, the 84 million acres of national parks and the roughly 100,000 public schools that give all children access to an education. Others come from nature, like mountains, lakes and rivers, which also depend on a reliable government and meaningful regulations to preserve and protect them.

While the collective value of these "public goods" is incalculable, the economic impact of schools, clean air and vast highways has been significant. In fact, I would argue that public goods are what have made America great.

Discouragingly, our stock of public goods has been declining for half a century, particularly of those that require the government's purse-strings. Setting aside for a moment natural public goods, the ones provided by the government have been on the decline. U.S. public capital investment, net of depreciation, fell to just
0.4 percent of GDP in 2014 from 1.7 percent in 2007 and about 3 percent in the 1960s. A particularly critical subset, research and development spending, has been the bedrock of innovation and growth in our economy. It has dropped from a high of 2.1 percent of GDP in 1964 (during the Cold War and space race) to less than 0.8 percent in recent years.

President Trump's proposed budget would make things even worse, by cutting funding to national parks, the cleanup of the Great Lakes, and efforts to minimize climate change. Not to mention the National Endowments for the Humanities and the Arts, National Public Radio and, most outrageously of all, the EPA. One exception is his much-touted plan to invest in infrastructure, but little of the estimated $1 trillion total would actually come from the federal government.

So if Trump is serious about making America as great as it can be, investing in our public goods -- as well as those equally vital ones we share with other nations -- would be a good place to start.

This erosion has persisted through both Republican and Democratic administrations. But it was not always thus, as the bipartisan history of our biggest undertakings attests.

The transcontinental railroads, though privately built in the mid-1800s, were heavily subsidized by generous grants of federal land under several presidents and were vital to 19th-century economic growth. As one illustration, before the railroads, it took almost six months and US$1,000 to travel from New York to California. Afterward, it cost just a week and $150.

Similar gains came after 20th-century presidents invested heavily in public works. Woodrow Wilson, a Democrat, established the National Park Service in 1916, a few years after Republican Theodore Roosevelt had greatly expanded their number. U.S. parks are now responsible for more than $200 billion a year in economic activity.

Franklin Delano Roosevelt, the quintessential Democrat, built schools, post offices, libraries and many other public buildings in the 1930s. And Republican Dwight D. Eisenhower created the interstate highway system that bears his name in what was the biggest public works project in history. An estimate in 1996 put its total economic benefit at well over $2 trillion, about six times the original cost.
One bright spot for public goods has been those shared across national borders, which have proliferated since World War II. The U.S. took the lead in establishing some of the key international institutions -- such as the United Nations the World Bank, and the IMF -- that provide public goods to the world. Healthy oceans, a stable climate and cross-border money transfers require international coordination for their protection.

Probably the most critical global public good is peace. While there have been many regional wars, a third world conflict has been avoided, in no small measure because, in the aftermath of World War II, the United States undertook to stabilize key regions of the world through military expenditures, strategic alliances like NATO, and economic assistance. Although increasingly frayed and fragile, these arrangements, dubbed the Pax Americana, have so far held.

The broadest, if not the sturdiest, steward of public goods has been the United Nations and its associated agencies. I won’t go into here the saga of what the UN has—and has not—done to lower the likelihood of global conflict. But other public goods also fall under its purview. Freedom of navigation, for example, is protected by the U.N.’s Law of the Sea. Ironically, the United States has never signed this Treaty, although we do in fact abide by its rules. The United States also led in the creation of the World Trade Organization, which sets the rules for international trade and the settlement of trade disputes.

But since the 1960s, the bipartisan consensus in our Congress in support of public goods has broken down, as the right’s pressure to cut taxes and the left’s efforts to expand entitlements squeezed the discretionary part of the budget -- from which support for public goods comes.

Both parties have moved further from the center, where bipartisanship resides and makes large public works project easier to build and fund. Meanwhile, a focus on reducing spending has meant that many once public goods such as trash collection and public education have been fully or partially privatized. Finally, many studies have found that “ethnic and racial heterogeneity reduces support for public goods. In other words, racism plays a role.

Now, not only does the Trump administration wish to significantly slash spending on already deteriorating U.S. public goods, it aims to cut funding for global
institutions such as the U.N. as well. And the strategic alliances the U.S. has entered into and the institutions it has nurtured to protect and promote international public goods are under threat. President Trump has called NATO obsolete and is reputedly looking for ways to bypass the WTO dispute settlement mechanism if too many of its decisions go against the United States. Whether the US formally pulls out of the Paris Agreement on climate change is not yet settled, but the policies of this administration affecting greenhouse gas emissions will surely nullify President Obama’s pledge regarding the steps the US intended to take.

More generally, President Trump’s trade protectionism, his oft-repeated disdain for multilateral agreements, and his insistence that only the welfare of US citizens matters has sent nations and regions that once trusted in the Pax Americana scurrying for alternative sources of mutual protection. The outlook does not bode well for the preservation or enhancement of public goods, domestic or international. This despite the fact that investing in public goods has served America well through the years, and it would be a huge mistake to turn our backs on it.

Why do I think that you graduates are an appropriate audience for my rueful remarks? Most of you will not become professional economists, but I dare say that, whatever professions you choose, many of you will be in a position to have a measurable effect on public policy. And your training in economics has given you both a rigorous methodology for analyzing problems and a focus on a variety of significant real-world issues. So, as older generations are forever wont to lay on the shoulders of the young the burden of repairing the mess that our generation has made of the world, I am confident that you will put the modes of thought that you have acquired here at Michigan to the task of tackling one or another of the local, national or global problems, just one of which I have outlined here.

Godspeed to every one of you, and to your families who have provided the support, in various forms, to get you through the past four years.