The Daily Dish

An Infrastructure Plan for the Economy

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Eakinomics: An Infrastructure Plan for the Economy

People often ask: "If you don't like the American Jobs Plan (AJP), what do you support?" It is easy to see that there is a bipartisan consensus supporting spending on traditional infrastructure such as roads, bridges, ports, airports, and the like. And there is a good case to be made for broadband as 21st century infrastructure. So, why not start out with something that covers those areas and would likely cost in the area of $500 to $700 billion? Unlike the AJP or the broader Build Back Better (BBB) plan, this approach would focus on federal spending with a clear positive impact on productivity and not watered down by social welfare transfers.

The second step is paying for the spending. The Biden approach is to start with the most economically destructive tax, the corporation income tax, and to begin with the most inefficient way to raise the revenue – increasing the rate. A better way to go is to keep to the tradition of levying user-fees, so that those who use (and wear out) the infrastructure pay for its construction and maintenance. For ports and airports, it is easy enough to charge ships and airplanes, which will be passed along to travelers and cargo shippers as part of the pricing structure.

For roads and bridges, the traditional user fee has been the gasoline tax, but it has been frozen for decades and the expansion of electric and hybrid vehicles increasingly makes it disconnected from use of the infrastructure. A superior solution would be to charge users of transportation infrastructure a fee commensurate to the wear and tear they impose on the system. The most promising fee is the vehicle miles tax (VMT), which would tax users of highways based on the type of vehicle (particularly its weight and number of axles), how many miles it traveled, and even where those miles are traveled. One can even split the VMT into a relatively high rate in urban areas — which have the bulk of roads and

infrastructure repair needs — and a lower rate in rural areas. These are large improvements in the incentives for road use.

Transportation Secretary Pete Buttigieg's rollout of the VMT, however, spooked conservatives. Cries of a damaging tax on the middle class filled the air, but this need not be the case. First of all, the VMT should replace the federal gasoline tax, not add to the existing burden. Second, the VMT should be sharply tilted toward trucking, where the combination of weight and axles leads to the greatest damage to roads and bridges. The Congressional Budget Office has a nice report on the design issues.

An efficiently financed, targeted infrastructure bill should not be a legislative bridge too far. It is exactly the right thing for the economy and supported by both sides. The danger, of course, is that in Washington any bipartisan good idea gets taken hostage for partisan objectives, such as an expansion of the social welfare state and punishing corporations.

It is time to free the hostage.