The Daily Dish

BIF Gets Real

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On Wednesday, the lead negotiators of the Bipartisan Infrastructure Framework (BIF) announced that an agreement had been reached on the major parameters of a proposed infrastructure spending proposal of about $550 billion. In June, the major elements of the proposal were made public, along with the support and encouragement of the Biden Administration. Subsequent reporting has identified some changes since that announcement – such as jettisoning Internal Revenue Service enforcement funding, new offsets, and an incremental reduction in the topline spending– but the public framework largely reflects, according to reports, the deal reached in principle yesterday.

The BIF is a consensus product and will not universally please anyone. While it should pass the Senate with a healthy margin, it won't be a slam dunk. But on the whole, it is a laudable legislative achievement. That its enactment may banish "infrastructure week" from the public lexicon is itself a win; more important, it should overall enhance U.S. productivity and improve long-term economic growth. The details are not yet public, but the central proposition of the proposal is straightforward: core infrastructure spending that is (at least largely) paid for.

"Infrastructure" increasingly means many things to many people, but the spending in the BIF is largely devoted to what most observers would recognize as core public infrastructure: roads, bridges, public transit, waterways, rail, and airports. Scoping the spending in the BIF to core infrastructure was both good politics and good policy. The benefits of public investment accrue to the economy by making workers more productive: The same amount of time can be used to produce more in the economy. But infrastructure spending is not the free lunch or genie in the lamp that some would have you believe, even if limited to core infrastructure. Rather, the details matter.

In distributing on the order of $550 billion, the federal government and its 535-member investment committee (the U.S. Congress) will not dispose of these funds in the most efficient way possible. It will not be a textbook exercise. The benefits that accrue to the economy in the form of improved productivity will reflect the degree to which those dollars are spent on infrastructure that genuinely improves productivity. There are plenty of "nice to have" projects that members would no doubt like taxpayers to fund, but for every beautified rest stop is a forgone intermodal freight project. One looks nice, one makes workers more productive – both types of projects will probably be funded under this proposal.

The details will matter and will determine the benefits to the taxpayers. The evidence suggests that, broadly, infrastructure spending more often than not contributes to productivity. The key is whether that benefit exceeds the cost of financing – a simple cost-benefit test that businesses routinely perform, but Congress prefers to elide.

Perhaps the key achievement of the BIF is that its investments are, at least partially, offset. Members of Congress have always preferred more infrastructure spending – the sine qua non of federal pork – but paying for it was always the hard part. The financing was politically difficult. As a matter of public policy, the financing mechanism informs the cost-benefit test for the spending.

Just borrowing more to finance spending is a loser, according to the Congressional Budget Office. The benefits of high-quality infrastructure investment can indeed outstrip the costs, but it can be a close call. Financing public investment with tax policies that particularly affect private investment, for example, fails that cost-benefit test. According to reports, the BIF is financed with a patchwork of familiar budget offsets. It is unclear if these will fully offset the cost, though it is unlikely. The bill will likely increase the deficit to a degree in the near term, but will be paid for over the long term, and paid for in a way that largely avoids particularly damaging tax policies. The upshot is that a compromise bill reflects compromise on both sides of the ledger, but as a matter of public policy, taxpayers, for once, probably come out ahead.