The Daily Dish

Designing an Infrastructure Program

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | DECEMBER 6, 2016

On Monday twenty-three senators sent a letter to President Obama requesting he put a hold on rolling out midnight regulations. The senators argue that the recent election results demonstrate that the American public has grown weary of the Obama Administration’s “consistent regulatory overreach”. An American Action Forum (@AAF) report showed that the Obama Administration could issue as much as $44 billion in midnight regulations before the President leaves office in January.

Last week regulators proposed 46 new rules and finalized 65 rules bringing the total regulatory costs of final rules issued in 2016 to $153.85 billion with an additional $47.1 billion in proposed rules. According to American Action Forum (@AAF) data, with the passage of these rules, the per capita regulatory burden for 2016 stands at $620.

Eakinomics: Designing an Infrastructure Program

The president-elect’s promise to dramatically improve U.S. infrastructure has gotten a lot of attention, particularly a putative price tag of $1 trillion. But a bit of reflection suggests that there are issues that are much more important than mere size.

This is not a typical infrastructure spending proposal like a surface transportation bill (done in December 2015) or the like. It is a one-time supplement to jumpstart the modernization process. This means that the central goal should be to make sure that the money is used wisely; i.e. contributes to the objective of better economic growth. This has implications for both the structure and content of the program.

As a structural matter, there are two national components. The primary federal role in promoting growth is to ensure national connectivity, and in a mode-neutral fashion. Connections of ports to trains, trains to planes, planes to trucks and trucks to barges should be as efficient as feasible. Modernizing links of this kind should be a focus of the federal involvement. The second component should recognize that a large amount of economic activity, and the bulk of legacy infrastructure, is located in metropolitan areas. This is best delegated to the states and localities, and is the most promising opportunity for the public-private partnerships that the president-elect put at the center of his campaign proposal.

Of course, economic growth will not be enhanced by wasting dollars on pet spending initiatives mislabeled as infrastructure. So, definitely focus on highways, transit, energy, and broadband projects that have a direct, quantifiable impact and will not be provided by the private sector. And definitely avoid pre-K education, health spending, training programs, and others that, however meritorious, are not genuinely shared infrastructure. In doing the spending, remember that the structure of funding decisions matters and that the highest productivity will be obtained by embedding funding contingent on performance outcome measures, a reliance on user fees and tolls, or a requirement for economic analysis as integral to funding decisions.

Finally, it has to be emphatically clear that this is not “stimulus” and that the emphasis should be on the quality of the ultimate projects, not the speed at which they are identified and initiated.

The U.S. has the opportunity to further modernize its infrastructure, but it will not happen automatically. Good program design will be essential.