The Daily Dish

The President's Infrastructure Plan

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Eakinomics: The President's Infrastructure Plan

The Trump Administration's long-awaited infrastructure plan ("Plan") — the "Legislative Outline for Rebuilding Infrastructure in America" — consists of four main pillars: (a) grants to states and localities that would incentivize public-private infrastructure partnerships; (b) rural infrastructure; (c) "transformative" infrastructure; and (d) reforms to federal policies on permitting, credit guarantees, and asset management. While there are many interesting and important issues, a few stand out as meriting comment.

1. No Money. The Plan's goal is to incentivize $1.5 trillion in new infrastructure using $200 billion of taxpayer money. There are two problems with this. First, it is hard to get to $1.5 trillion. One-half of the $200 billion will go to an incentives program that permits states, localities and the private sector to receive up to 20 percent of a project's cost as a grant. Taken at face value, that means this $100 billion can finance $500 billion in new infrastructure. Another $50 billion would be dedicated to rural infrastructure and $20 billion to "transformative projects." The latter could be levered to produce anywhere from $50 to $70 billion, so the combined programs would generate roughly another $100 billion in final projects. That leaves $30 billion to generate the remaining $900 billion — a tall order.

The second problem is: there is no $200 billion. At least, the plan is silent on where (e.g. additional revenue, cuts to other spending) it it will come from. This has led some to argue that the time has come to raise the gas tax (including, perhaps, the president himself). But an increase in the gas tax would dedicate revenue to the existing highway trust fund. This is at odds with the second important feature:

2. An Innovative Break from the Past. The president's argument is that the U.S. infrastructure is in shambles. Taken at face value, this is an indictment of the existing programs for surface transportation, water resources, aviation, and the like. Accordingly, it makes no sense to simply pour new dollars into these existing financing silos. The Plan is anything but this. Three of the pillars are new approaches to financing, and the fourth offers major reforms to these federal financing programs. This is exactly the right strategy.

3. A Large Legislative Challenge. A "dead-on-arrival" atmosphere surrounded the Plan (and the president's budget more generally) after it was announced. Typically, this was attributed to the absence of dedicated funding and the ambitious trillion dollar scale. But the Plan is also sweeping and complex. By one count, its passage would require as many as eight Senate committees to deal with legislation in their jurisdictions. Tax reform had one (and barely passed) and health care reform had two (and did not pass). Complexity adds to the time needed for legislation. And time is the enemy in an election year.

The Trump Administration plan is unlikely to go forward as a whole. But it is rich with reforms and ideas that merit continued consideration by Congress.