Insight

TRIP Bonds and National Infrastructure Needs

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The United States faces dual problems of subpar economic growth and unsustainably high federal debt. At the same time, numerous commissions and studies have documented its backlog of valuable infrastructure investment. In this context, economic policy should preserve infrastructure spending, along with other core functions of government; enhance the efficiency of government spending; reduce current and projected transfer payments; and undertake pro-growth tax reform. TRIP bonds are a valuable piece of such a policy strategy.

TRIP bonds support transportation infrastructure in a mode-neutral fashion, thereby fitting an important criterion for efficiency. In addition, TRIP bonds are fully-funded, thereby not contributing to the debt explosion, and utilize a state-based approach that provides the potential to fund key infrastructure needs not easily identified by a national approach.

TRIP Bonds

A bipartisan, bicameral group of legislators (Senators Ron Wyden (D-OR), John Hoeven (R-ND) and Mark Begich (D-AK) and Representatives Leonard Boswell (D-IA-03) and Ed Whitfield, (R-KY-01)) introduced legislation to create Transportation and Regional Infrastructure Project (TRIP) bonds as part of a $50 billion effort for transportation infrastructure over the next six years. In short, the TRIP approach would dedicate an existing customs fee to repaying the principal on $50 billion of tax-credit bonds. The bonds would be budget neutral by offsetting the roughly $2 billion in Treasury funds needed each year for the tax credits. Meanwhile, the $50 billion borrowing would provide each state with $1 billion for transportation needs over the next six years.

The Policy Context

The United States is suffering from poor economic growth. Since the official trough of the recession in June 2009, quarterly growth in Gross Domestic Product (GDP) has averaged an annual rate of 2.4 percent. This has, in turn, translated into substandard job growth, with monthly payroll employment increases averaging only 61 thousand during the recovery.[1]

At the same time, the U.S. has a daunting level of current and projected federal debt. Already the gross debt (*i.e.*, debt in the hands of the public plus intra-governmental debt) of the federal government exceeds our entire economy. Historically, countries that have a ratio of debt-to-GDP exceeding 90 percent face both a higher probability of an unpredictably-timed sovereign debt crisis and a continual, annual growth penalty of one percentage point.[2] Using the rules-of-thumb from the Administration, the latter translates into a million fewer jobs each year.

Past poor performance and an ongoing growth penalty are pressing problems. Dealing with the debt overhang requires some combination of spending cuts and tax increases, at least relative to future projections. However, not all combinations are created equal. It turns out that the best strategy that a country can follow in these circumstances has two key elements.[3]

First, it is important to keep taxes low, and reform them if possible to be more pro-growth. Tax increases are unwise. Second, debt must be controlled by controlling spending. But not all spending is created equal. It is important to preserve core functions of government like national defense, basic research, education, and infrastructure – including transportation infrastructure.

This is especially important because study after study and commission after commission has documented the backlog of valuable infrastructure investments in the United States. For this reason, a premium will be placed on policies that preserve transportation infrastructure spending without raising new taxes and use the dollars in an economically efficient fashion.

TRIP Bonds and the Policy Paradigm

Using these lessons of economic history as a metric, how do the proposed TRIP bonds stand up? First, they are targeted on the right piece of spending – core transportation infrastructure in the United States.

Second, the proceeds of TRIP bonds may be used to finance *any* new transportation infrastructure. That is, they are mode-neutral and have the capacity to be targeted on those projects that enhance national connectivity and economic growth. A recent bipartisan, private-sector transportation policy commission recently identified these as among the crucial considerations for U.S. transportation policy.[4]

Third, TRIP bonds are channeled to state-level entities – $1 billion per state over 6 years – to undertake the actual project selection and investment. The U.S. has long benefited from decentralized decision-making in a federalist system of government.

Finally, TRIP bonds do not require new taxes. The principal would be repaid from existing custom fees, while tax credit financing would necessitate offsetting spending reductions.[5],[6]

In summary, TRIP bonds are a fiscally sound way to contribute to the significant needs of the U.S. for transportation infrastructure investment.

[1] Specifically, since June 2009 the average increase in non-farm payroll employment has averaged 61 thousand.