



Statement of

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*The views expressed are my own and should not be attributed to the Tax Policy Center, the Urban Institute, the Brookings Institution, their trustees, or their funders.

Congressman Delaney and members of the coalition, thank you for inviting me here today to discuss our nation's infrastructure. The views expressed are my own and should not be attributed to the Tax Policy Center, the Urban Institute, the Brookings Institution, their trustees, or their funders.

Across partisan lines and in government, business, academia, and the advocacy community, people broadly agree that our nation's physical capital stock is not keeping pace with the demands of a 21st-century economy or a changing society. I would like to tell you that with all this consensus addressing what former Transportation Secretary Anthony Foxx called our "infrastructure deficit" will be easy.

But you already know that it will be hard. At the risk of making your jobs even harder, here are four things Congress may want to keep in mind when considering changes to infrastructure policy.

1. SPENDING BENCHMARKS VARY WIDELY

You've all heard that America needs to invest \$2 trillion in public money to bring our transportation, water, energy, and other infrastructure up to par by 2025. That figure comes from the American Society of Civil Engineers.¹ But that's not the only estimate.

Federal agencies suggest that our spending needs are lower. For example, the US Department of Transportation calculates that addressing the current \$830 billion backlog in highway and bridge investments plus making all other cost-beneficial improvements to the road system would cost federal, state, and local governments \$746 billion over 20 years versus the ASCE's \$1.1 trillion over ten years for surface transportation.²

The DOT reports also find that our performance is improving along several dimensions. The percentage of bridges that are structurally deficient has been declining, for example, as has the share of roads with poor pavement quality.³ We still have much to do, but things are not as dire as some headline claims suggest.

You've also heard comparisons to the 1960s, the heyday of America's investment in public infrastructure. We are certainly investing less in public infrastructure today, relative to the size of the economy, than we were in the 1960s (see figure). But that doesn't mean we need to return 1960s' investment levels.

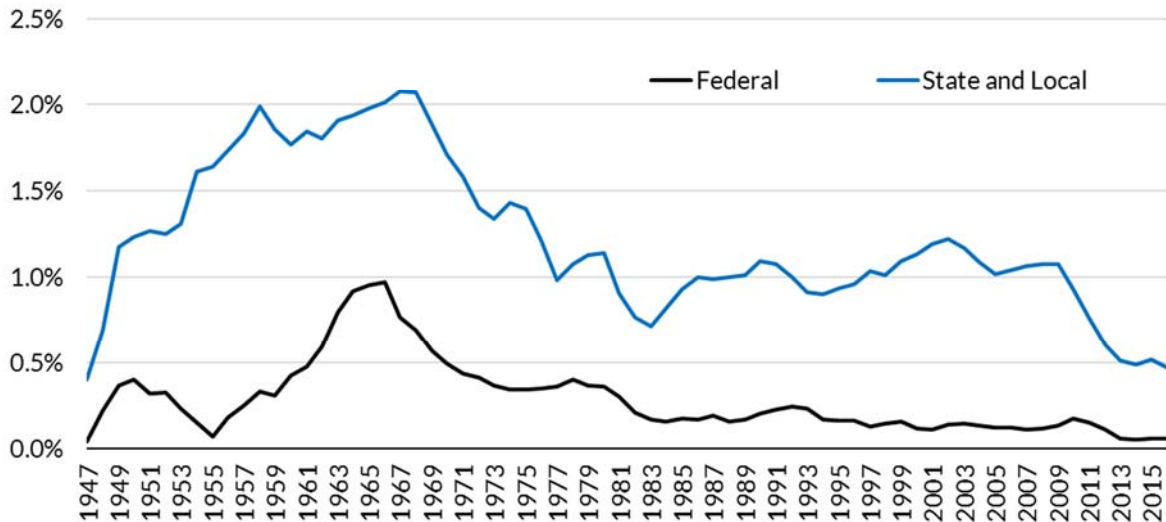
¹ See "Economic Impact," 2017 Infrastructure Report Card, American Society of Civil Engineers, <https://www.infrastructurereportcard.org/the-impact/economic-impact/>.

² See *2015 Status of the Nation's Highways, Bridges, and Transit: Conditions & Performance, Chapter 8: Selected Capital Investment Scenarios: Highways* (Washington, DC: US Department of Transportation, Federal Highway Administration and Federal Transit Administration, 2016).

³ See *2015 Status of the Nation's Highways, Bridges, and Transit: Conditions & Performance, Chapter 6: Potential Capital Investment Impacts: Highways* (Washington, DC: US Department of Transportation, Federal Highway Administration and Federal Transit Administration, 2016); and also *Drinking Water Infrastructure Needs Survey and Assessment: Fifth Report to Congress* (Washington, DC: US Environmental Protection Agency, 2013).

Non-Defense Net Public Investment by Government level, 1947-2016

Percent of GDP (%)



Source: US Bureau of Economic Analysis: National Income and Product Accounts - Table 5.2.5 URBAN INSTITUTE

Surveys of the economic literature note that returns to infrastructure spending are specific to time and place and may drop off considerably after an initial boost to economic activity. As one of the best-known papers in this area notes, “Building an interstate network might be very productive; building a second network may not.”⁴

More recent research emphasizes maintaining a state of good repair and reaping the best performance from the existing infrastructure stock rather than expanding the system.⁵

2. ALL INFRASTRUCTURE IS LOCAL

It is worth remembering that with some exceptions—like the Interstate Highway System—there really is no such thing as a national infrastructure. There are specific projects in specific places that affect people and businesses in those communities. States and localities make three-quarters of all infrastructure investments (see figure). For operations and maintenance as opposed to capital spending, the state and local share is even higher (i.e., 88 percent for transportation and water infrastructure).⁶

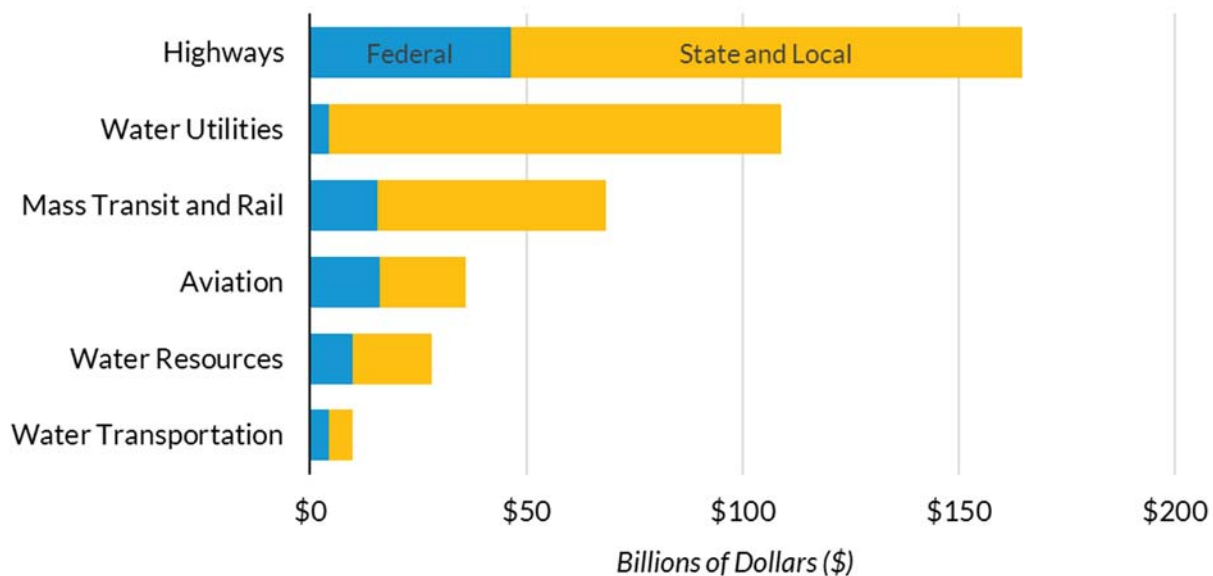
⁴ John G. Fernald, “Roads to Prosperity? Assessing the Link between Public Capital and Productivity,” *American Economic Review* 89, No. 3 (1999): 619–38.

⁵ Matthew E. Kahn and David M. Levinson, “Fix It First, Expand It Second, Reward It Third: A New Strategy for America’s Highways,” Hamilton Project Discussion Paper 2011-13 (Washington, DC: Brookings Institution, 2011).

⁶ *Public Spending on Transportation and Water Infrastructure, 1956 to 2014* (Washington, DC: Congressional Budget Office, 2015).

Public Spending on Transportation and Water Infrastructure

By level of government, 2014



Source: Congressional Budget Office, "Public Spending on Transportation and Water Infrastructure, 1956 to 2014."

Note: State and local spending is net of federal grants and subsidies.

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Beyond spending, state and local governments make land-use decisions, conduct environmental reviews, enforce labor laws, set procurement rules, and implement other regulations that shape what infrastructure gets built, how, and where. These often overlapping and poorly coordinated federal, state, and local requirements mean it can take more than a decade for projects to get approved.⁷ Coordination among federal, state, and local governments can be a problem and needs to be handled better.

A National Infrastructure Bank is one way to address this fragmentation. Discussions of infrastructure banks often focus on how they would expand access to loans, loan guarantees, and other credit enhancements. However, equally if not more important is their role in improving project selection.

3. THE FEDERAL GOVERNMENT HAS MANY TOOLS AT ITS DISPOSAL

Beyond direct spending and intergovernmental grants, the federal government has many tools at its disposal, including traditional tax-exempt municipal bonds, taxable bonds, private activity bonds, direct loans and guarantees, and help attracting private financing through public-private-partnerships, or P3s.

The American Recovery and Reinvestment Act of 2009 authorized state and local issuers to sell taxable Build America Bonds (BABs) for infrastructure, thereby accessing nontraditional buyers such as foreigners and pension funds. BABs were enormously popular, generating \$181 billion in new taxable issuances and

⁷ *Transportation for Tomorrow*, Vol. II, chapter 6 (Washington, DC: National Surface Transportation Policy and Revenue Study Commission, 2007).

costing the federal government roughly \$10 billion more than initially estimated (on a gross basis, not including new tax revenues generated from the bonds).⁸

A revived BABs program is a good idea, though politically fraught. State and local government interest in BABs dried up after the sequester cut federal subsidies to issuers. States and localities also fear that BABs would be the first step toward cutting back or eliminating the federal tax exemption for municipal bonds.

Providing more rewards for local experimentation, such as trials of vehicle-miles-traveled fees, may be more welcome at the state and local level. Another opportunity may be to tie federal formula funds to the use of cost-benefit or other performance criteria or to make TIFIA (Transportation Infrastructure Finance and Innovation Act) loans conditional on securing state and local project approvals.

4. FUNDING IS NOT FINANCING

Funding is money that does not need to be repaid, like federal grants. Financing is a way to borrow now and pay later from general revenues, dedicated taxes, user fees, or other revenues from a project.

There is currently enormous interest and energy around public private partnerships or P3s.⁹ Bringing in private-sector capital and management may have its advantages in efficiency and project quality, but it cannot solve the infrastructure gap. P3s have generated only \$61 billion in highway projects from 1989 to 2013, about 1.5 percent of total highway expenditures by all government levels over this period.¹⁰

Low take-up of P3s may be because of unfamiliarity with contracts and a reluctance to try something new. Or, it could be because equity investors expect a return and this requires a revenue stream such as new taxes, which are never an easy political sell. Some P3s may make sense; others may not. The federal government would do well to continue providing technical assistance to states and localities, especially on contracting.¹¹

These four items do not represent every issue that you must balance while you consider investing in infrastructure, but I hope my remarks have offered an evidence-based perspective on what Congress might bear in mind moving forward.

Thank you for the opportunity to share these four points with you. I welcome the opportunity to take questions from you today and to work with you in the future as you continue this important work.

⁸ “Treasury Analysis of Build America Bonds Issuance and Savings” (Washington, DC: US Department of the Treasury, 2011).

⁹ For example, “Expanding the Market for Infrastructure Public-Private Partnership” (Washington, DC: US Department of the Treasury, Office of Economic Policy, 2015).

¹⁰ *Public Private Partnerships* (Washington, DC: US House of Representatives, Committee on Transportation and Infrastructure, 2014).

¹¹ Eduardo Engel, Ronald Fischer, and Alexander Galetovic, *Public-Private Partnerships to Revamp U.S. Infrastructure* (Washington, DC: Brookings Institution, 2011).