Trump team’s infrastructure plan has some big gaps

Joan Lowy and David Lieb

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President Donald Trump has promised to revitalize America’s aging roads, bridges, railways and airports, but a plan put forward by his economic advisers relies on a transportation financing scheme that hasn’t been tried before and comes with significant risks.

The plan was set out just before the election by billionaire leveraged buyout specialist Wilbur Ross, Trump’s pick for commerce secretary, and conservative economics professor Peter Navarro, whom Trump has tapped to head his National Trade Council. They recommended the government allocate $137 billion in tax credits for private investors who underwrite infrastructure projects.

Ross and Navarro estimate that over 10 years the credits could spur $1 trillion in investment. That’s how much Trump promised to spend on infrastructure -- a key part of his job-creation plan.

Trump hasn’t yet said whether he’ll try to carry out the Ross-Navarro plan or seek an alternative, although the administration’s preference for addressing the problem with private dollars is clear. Transportation Secretary Elaine Chao emphasized at her confirmation hearing that the administration wants to “unleash the potential” of private investors and come up with creative ways to tap their capital.

But there’s skepticism even among free market-oriented Republicans that the Ross-Navarro plan could work on a massive scale. Infrastructure projects like roads and bridges are attractive to investors only if they have tolls or some other way of generating revenue. Relatively few projects in the country meet those conditions.

Tax credits offer additional incentive, but economists and transportation experts warn the government could end up rewarding investors in projects that would have been built even without credits.

“I don’t think that is a model that is going be viewed as successful or that you can use it for all of the infrastructure needs that the U.S. has,” said Douglas Holtz-Eakin, a former head of the Congressional Budget Office and economic adviser to John McCain’s 2008 presidential campaign.

Business and labor executives told a House transportation committee hearing last week that private investment won’t provide nearly enough to address America’s infrastructure woes. While so-called public-private partnerships can help, “what needs to happen is to increase the gasoline and diesel taxes” to pay for more direct federal spending, said FedEx (FDX) CEO Fred Smith.

The Transportation Department said in a statement that Chao is “open to exploring all infrastructure funding options in order to ensure that the resulting solutions provide the greatest benefit to the public.”

Public-private partnerships aren’t a new concept, and many have been successful. Federal tax credits have been used to spur private investment is housing, resulting in tens of thousands of low-income housing developments over the past 30 years.

The credits are sold to private entities such as banks and equity firms that invest anywhere from 70 cents to $1.10 in the housing developments for every $1 they receive in credits, a ratio that fluctuates with economic conditions.

Vince Bennett, president of McCormack Baron Salazar, a St. Louis-based firm, said tax credits are “probably the single-biggest tool that federal policymakers have” for producing affordable housing. His company has built 137 low-income housing developments financed by the federal program in more than 20 states. Its $3.1 billion of projects have been aided by about $1.3 billion in federal tax credits.

Some state transportation officials see advantages as well. Missouri recently sought a six-month extension under a federal pilot project allowing tolling to rebuild a 200-mile stretch of Interstate 70 between suburban St. Louis and Kansas City. The state lacks the needed $2 billion to $4 billion for construction but is waiting to see whether Trump could jumpstart the dormant plans.

“That type of project is, I believe, (what) the Trump administration is talking about in terms of a tax-credit basis-spurred private investment,” said Missouri Department of Transportation Director Patrick McKenna.

But those kinds of projects are rare. While the pilot program enables Missouri to toll high-traffic interstates, most states are barred from tolling existing lanes. Obama administration Transportation Secretary Anthony Foxx estimated public-private partnerships may be able to address at most 10 percent to 20 percent of infrastructure needs.

Tax credits also “probably aren’t useful to the companies that would be willing to invest in these projects” because “they generally don’t have a tax liability that the tax credits could offset,” said Mary Peters, who was transportation secretary under President George W. Bush.

Much of the private investment in infrastructure projects comes from tax-exempt pension funds and investment funds controlled by other governments, which also don’t pay U.S. taxes.

Chris Edward, director of tax policy studies for the libertarian Cato Institute, favors alternatives to the tax credits, such as easing restrictions on tolls on most interstate highways. Tolling, though, is unpopular with the public.

Ananth Prasad, a former Florida transportation secretary, said high-traffic projects could be ripe for private investment if federal tax credits are offered. But Prasad, who is now at the infrastructure engineering firm HNTB Corp., said tax credits alone may not be enough for private investors to rebuild old roads and bridges in vast stretches of rural America, where there is less opportunity to generate revenue.

“The bottom line is you still need money to pay back the private sector,” Prasad said. “That project still has to have a return on that investment.”