Who pays Donald Trump's US$1 trillion infrastructure tab?

The final part of a three-part series investigating the challenges for the Donald Trump administration in rebuilding crumbling infrastructure in the US.

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US President Donald Trump has said he would "harness market forces to help attract new private infrastructure investments" to fund his US$1 trillion plan to rebuild the country's infrastructure

The president said he'll do this through a deficit-neutral system of infrastructure tax credits. Public-private partnerships, innovative financing programs and bond issues are also touted by his appointees as ways to foot the bill.

Critics argue that financing for the US$1 trillion package is problematic since Trump also proposes to cut taxes, reducing potential sources of public revenue for infrastructure. It's also unclear if funds from tax credits will be adequate to offset costs.

Other suggestions include public-private partnerships. "Public-private partnerships are more attractive for a wider array of projects than is commonly understood," S&P Global CEO Doug Peterson and former Federal Aviation Administration Administrator Jane Garvey wrote in a January 2017 opinion piece for US News.

Such arrangements share risk, capture new revenue and accomplish projects more quickly – all at a lower cost, the writers said.

Trump's Transportation Secretary Elaine Chao alluded to this in her confirmation hearings, saying that there are "trillions in capital that equity firms, pension funds and endowments can invest."

Repatriated profits

Another possible source of infrastructure funds is profits held by US companies overseas.

Trump said during his campaign that he would give American corporations a one-off tax holiday allowing them to repatriate funds with a reduced 10% tax payment instead of the current 35% rate. The hope is that this will encourage a hefty return of the estimated $2.6 trillion held offshore by US firms.

Beside these sources of private capital to invest in highways, bridges, railways and airports, Trump backers say private firms could also take over the operation of public works and transport services, turning them into profitable and taxable businesses.

But one criticism of Trump's repatriation scheme is that the funds will likely be plowed into share buy-backs to boost stock prices rather than investments in infrastructure, R&D and top-line growth.

David Garrity, a technology and finance analyst with capital markets experience, sees other weaknesses in Trump's infrastructure financing plans. He says the president's call for public-private partnerships still faces a fierce debate in Congress over the exact share of federal and private funds to be used.

Garrity notes that fiscal conservatives like House Speaker Paul Ryan have said they want to minimize federal investment in infrastructure while maximizing private-equity contributions.

Government role

Companies may balk if forced to assume too large a burden and it's not a given that government-run infrastructure like airports and highways will be operated more cheaply and efficiently by private firms, said Garrity.

Since the public good and safety is at stake in Trump's infrastructure plan, Garrity says that a workable balance needs to be struck between the public and private sector. He also says government participation shouldn't be minimized.

"The question is does (privatization) really reduce the overall cost of operation and produce a social benefit?," said Garrity, the CEO of New York-based GVA Research.

Coates goes further. He says that while private-sector involvement is desirable, Trump's grand scheme will never fly without the government's active help in overseeing and financing the project.

One example of Coates' argument are Japan's famed Shinkansen "bullet" trains. The Japanese government played a pivotal role in getting the project off the ground with an US$80 million loan from the World Bank.

Government officials also closely coordinated the collaboration between railways companies and Kawasaki Heavy, Mitsubishi Heavy, Hitachi, Toshiba and others that developed the Shinkansen. Coates notes that governments played similar roles in shepherding other huge infrastructure projects in China and Europe.

Bonds & steel

David P. Goldman, a former chief of fixed income research for Bank of America, said a government-backed bond issue could help finance Trump's plan.

"There's a natural demand for quasi-governmental debt that pays a higher interest rate than Treasuries but has the implicit backing of the US government," he said.

A well structured entity should find support from bond buyers in countries who are large net savers, Goldman said, citing East Asia, the Gulf States as well as northern Europe.

Trump, in another campaign pledge, plans to use steel made by American workers for his infrastructure buildout.

Critics say the practice would violate World Trade Organization agreements, curb price competition and fuel government-corporate favoritism.

Economic benefit to the US steel industry would also be negligible, some analysts say, since steel prices are already low and most domestically used steel is already made in the US.

Such a plan is also inefficient, Daniel J. Ikenson, a trade expert at the libertarian Cato Institute in Washington, D.C., wrote recently of Trump's "Buy American" vow.

"Only a basic understanding of supply and demand is required to see that limiting competition for procurement projects ensures one outcome: taxpayers get a smaller bang for their buck."