DAILY NEWS

The trouble with Trump's infrastructure ambitions

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Based on what we know now, President-elect Donald Trump's proposal to promote infrastructure by giving private investors tax breaks for such projects will result in wasteful spending and do little to fix crumbling facilities or promote economic growth. To correct this, the administration needs to target spending on projects that are vital to the nation's economy.

Many advocates of infrastructure spending assume that all infrastructure contributes equally to economic vitality, but this is far from true. Digging a hole and filling it up may create a few jobs but no long-term economic growth. Transportation projects, for example, produce growth only if they generate new passenger and freight movement that would not have taken place without them.

The First Transcontinental Railroad opened up hundreds of thousands of square miles to development. The Interstate Highway System led to millions of miles of new passenger travel and ton-miles of freight shipments. These projects generated far more economic benefits than their costs.

Today, few areas need new transportation infrastructure. The nation has 2.7 million miles of paved roads, 140,000 miles of railroads, and more than 5,000 airports with paved runways. Airlines can increase airport capacities simply by flying larger planes. There are many ways of relieving highway congestion without building more roads.

In an urban area that already has plenty of transportation facilities, a new light-rail line whose only aim is to move people who would otherwise drive or take a bus generates little or no new travel. Similarly, a high-speed rail line between two cities with the goal of attracting travelers out of planes or automobiles is likely to generate little new travel.

Any developments built on those rail lines would have been built anyway without the rail; at most, all the rail does is influence their locations. And rail transport is more expensive than the cars, buses or planes it replaces, so infrastructure spending on such projects reduces, rather than increases, our gross domestic product.

Some fast-growing urban areas such as Austin, Raleigh and Provo-Orem, Utah — all of which grew by about 50% in the past five years — need new highways to accommodate that growth. New bike paths or light-rail lines — which, contrary to claims, cannot move as many people as a single freeway lane, much less an eight-lane freeway — won't be sufficient to support such growth.

Traditionally, when a state or local government builds new infrastructure, it sells bonds, uses the revenues to pay for the infrastructure, then repays the bonds with local tax revenues. Since local tax revenues will be about the same whether the infrastructure is productive or a white elephant, officials have little reason to discriminate between good and bad projects. To prevent abuse, voters in many areas have placed debt limits on government agencies.

Trump's method of tax credits gets around these debt limits. Private contractors borrow money and build the infrastructure, and state or local governments would contract to pay the contractors, sometimes millions of dollars per month. Since the contractors, not the government agencies, borrowed the money, it doesn't count against the democratically set debt limits, but local taxpayers are obligated to repay the debt anyway.

We have crumbling infrastructure because politicians would rather fund new projects than maintain existing ones. We build projects that fail to contribute to the economy because those same politicians follow fads rather than make sure taxpayers' money is well spent. Trump's proposed finance method won't fix these problems.

The solution is to properly target infrastructure spending. For most kinds of infrastructure, including transportation, the best way is to require that the infrastructure be paid for out of user fees. Unlike infrastructure paid for out of tax dollars, user-fee-funded projects tend to be well maintained because the agencies that manage them know they have to keep them in good shape to continue earning revenues.

Without proper targeting using the user-pays criterion, Trump's tax-credit scheme is likely to contribute to the continuing stagnation of the economy. Properly targeted, it can safely be added to the financial toolbox we use to pay for infrastructure.

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