SEYMOUR TRIBUNE

7 ways to improve infrastructure and save money

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"Infrastructure Week" sees the U.S. Chamber of Commerce, unions, the American Society of Civil Engineers, and many others telling Congress that "It's Time To Build." Yet a quick perusal of Infrastructure Week's website suggests a more accurate description of their demand is, "It's Time to Spend More Taxpayer Money."

This is a shame. With President Trump pledging $1 trillion of new public and private investment across a decade and Democrats preferring direct federal spending, the group could be pushing at an open door. But the cross-party obsession on federal spending levels ignores opportunities to make infrastructure development more efficient without increasing demands on taxpayers.

In order to get the biggest "bang for our buck", infrastructure policy should encourage innovation, cost-effective provision, and investment where it is most economically beneficial. This means putting aside short-term concerns about "creating jobs" and "shovel-ready projects," and focusing on long-run growth.

Here are seven ways to do that:

1. Government should only be involved in projects where there are high social returns that the private sector would not provide. We are way beyond this in the United States. Other countries show the possibility of having well-run and maintained privatized airports (the United Kingdom), air traffic control systems (Canada) and railways (Japan). Many areas of U.S. infrastructure are ripe for privatization, and the experience of the U.K. and elsewhere suggests this could lower prices for consumers without compromising quality.

2. The burden of responsibility for spending and taxation on projects should be shifted towards states. Federal aid often distributes money to the detriment of economic growth. The Highway Trust Fund, for example, disproportionately benefits large, relatively underpopulated areas, rather than investing in areas of rapid growth. Harvard economist Ed Glaeser has outlined how "Alaska received $484 million in the 2015 highway-aid apportionment … about $657 for each Alaskan" while "New York State received $1.62 billion, or $82 per person." Clearly, this does not reflect economic demands.

3. The federal government should remove barriers to user charging, such as tolling restrictions on interstate highways and the cap on passenger facility charges at airports. User charging provides incentives to reduce congestion and ensure development closely aligns with demand. Having clear revenue streams associated with assets also makes private sector investment more likely. The economic benefits could be substantial. The Federal Highway Administration estimates congestion pricing could reduce the amount of capital investment required to meet the same goals for the highway system by around 30 percent.

4. Decisions on what government projects to undertake given scarce resources should be decided by selecting those with the highest benefit/cost ratios. Though governments around the world tend to be overoptimistic about the benefits of major projects generally, the Federal Highway Administration has estimated selecting highway projects on this basis could see the same level of benefits delivered for about 25 percent less cost.

5. The tax bias towards government debt financing of projects should be ended. Under present federal income tax law, the interest income you receive from investing in municipal bonds is free from federal income taxes, which is not the case for private debt. This tips the deck in favor of government investment and deters private infrastructure ventures.

6. Environmental regulations which delay and raise the cost of projects should be streamlined. A report for the outgoing Obama administration estimated that "the average time to complete a [National Environmental Policy Act] study increased from 2.2 years in the 1970s … to 6.6 years in 2011." This increases costs and adds significant uncertainty to a project, deterring private investment. Imposing time limits for agency decisions or narrowing the Act are two crude ways to curb this trend.

7. Finally, regulations which raise the cost of providing infrastructure should be repealed. The federal Davis-Bacon Act commits federal construction projects to pay "prevailing wages" for construction workers, often meaning union rates at a significantly higher cost. Repealing the Act could have saved taxpayers $13 billion between 2015 and 2023, according to the CBO. Likewise, Buy America regulations impose requirements that federal construction projects use American steel, iron, and other products in highway construction unless waivers are granted, which also raises costs. This could get worse of course, if the Trump administration imposes further import restrictions on steel imports.

Trump has a huge opportunity to overhaul all these areas to improve infrastructure for generations to come. But if he is to do so, he will need to cast aside the notion from "Infrastructure Week" and advocacy groups that improving infrastructure is all about more spending, and instead focus on getting the structures and institutions right.

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