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America's Infrastructure Disinvestment Will Slow the Development of a Sustainable Economy

By Steven Cohen
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This is the 50th anniversary of New York's Verrazano-Narrows Bridge, the span that connects Staten Island with Brooklyn. As a child growing up in Brooklyn I remember watching its towers rise as if by magic. I always connected it with the 1964 World's Fair which took place the same year the bridge opened, thinking they were both signs of the dazzling modern world that we would all get to live in. The bridge remains as beautiful as ever, although it eventually led to a great deal of poorly planned development in Staten Island, and its rising tolls remain a source of frustration to many who need to use it. Still, like New York's third water tunnel and the Second Avenue Subway it is a sign of New York's willingness to invest in the future. Infrastructure in a place like New York is a matter of survival. The City's $20 billion climate resiliency plan includes major improvements in critical pieces of the City's infrastructure, and the need for this investment transcends politics.

But unfortunately New York is an exception; throughout America, disinvestment in infrastructure is far more typical. America's focus seems to be on individual spending, not investment in community resources. We refuse to tax ourselves and the signs of neglect are everywhere. Our airports are second-rate, our roads are crumbling, our rail system is a joke, and our power grid is inefficient and a long way from the smart grid we will need to make the transition from fossil fuels to renewable energy. According to an article in *The Economist* earlier this year:

America saw two great booms in infrastructure spending in the past century, the first during the Great Depression... and the second in the 1950s and 60s, when most of the interstate highway system was. Since then, public infrastructure spending as a share of GDP has declined to about half the European level.

One of our deepest problems is that the federal gasoline tax was not established as a percentage of the price of gasoline, but as a set amount of cents per gallon. It has not kept up with inflation, and the federal highway trust fund which once built the interstate highway system does not have enough money in it to maintain the system already built.

The problem is not simply with highways and is not limited to the federal government; the problem is reduced public investment by all levels of government. This past June, in

FiveThirtyEight.com, Andrew Flowers made sense of the situation in an excellent analysis entitled: "America's Broken Infrastructure." According to Flowers:

Quantifying infrastructure investment is a challenge, but one place to start is by looking at the amount of money the government spends on buildings and large-scale projects. Nationwide, public construction spending is just over 1.5 percent of GDP -- the lowest share since 1993. Public construction does not exactly equate with infrastructure investment, but it's a fair proxy...Most of the money spent on building schools, highways and waste disposal facilities comes from state and local governments, not from the federal government. As of April 2014, more than 90 percent of the $267 billion spent by the public sector (at a seasonally adjusted annual rate) was at the state and local levels...

Flowers believes the cause of state and local disinvestment is fiscal stress from three sources:

1. The 2008 financial meltdown and Great Recession. State and local debt as a percentage of GDP grew from 12% in 2000 to over 20% in 2010, declining to about 17% last year. The high level of state and local debt service has made these governments reluctant to borrow more for infrastructure.
2. Pension obligations for retired government workers.
3. The dysfunction in Washington that has endangered the highway trust fund. The federal highway trust fund typically distributed between $40-50 billion a year, but is now essentially broke.

America's fundamental problem is that anti-tax ideology has become an anti-investment reality. We would rather pay for high definition TV's and new iPhones than invest in the cost of community resources. We don't trust our institutions to deliver what they promise, and so we have lost our ability to build for the future or even maintain the infrastructure we built in the past.

To get out of this box we will need the Republican Party to enact state taxes for infrastructure. Starting in January 2015, 67 of the 98 state legislatures that permit partisan control will be run by Republicans. Twenty-four states will be controlled by both Republican governors and Republican legislatures compared to six states controlled by Democrats. Therefore, at the state level, the Republican Party is now the majority party in the United States. Republicans now hold the responsibility for the nation's crumbling infrastructure. Unfortunately, there is no chance that they will raise the revenues needed for rebuilding. Many of them came to office fighting new taxation, and they tend to be committed to reducing rather than increasing government spending.

Moreover, right wing think tanks like the Cato Institute reinforce anti-government ideology by redefining infrastructure itself, and opposing increased public spending. In a fascinating 2013 analysis of the issue entitled, "Infrastructure Investment," Chris Edwards observes that: "The word "infrastructure" generally refers to long-lived fixed assets that provide a backbone for other production and consumption activities in the economy." He then defines private infrastructure so expansively that he includes investment in private factories. According to Edwards:

Most of America's infrastructure is provided by the private sector, not governments. In 2012 gross fixed private investment was an enormous $2 trillion, according to national income accounts data. That includes investment in factories, pipelines, refineries, cell phone towers, and many other facilities. By contrast, total federal, state, and local government infrastructure investment in 2012 was $472 billion. Excluding national defense, government investment was $367 billion. Thus, private infrastructure investment in the United States is five times larger than total nondefense government investment.

Edwards believes that the public sector tends to waste the money it spends on infrastructure and there would be more infrastructure investment if we just privatized everything. He denies that we have a problem with infrastructure and notes that highway maintenance and bridge quality is improving. (I'm not sure where he drives, but it can't be in this country). It is very difficult to address the problem of crumbling infrastructure when it is defined away, or seen as a function of overregulation by government. The problem is underinvestment, not overregulation.

Susanne Trimbath takes a more sophisticated but also expansive conception of infrastructure in her U.S. Chamber of Commerce analysis entitled: "Economic Infrastructure: building for prosperity." In her view, "infrastructure is not the end result of economic activity, rather it is the framework that makes economic activity possible." Trimbath examines the impact of public infrastructure investment on economic growth. Generally speaking it has a positive impact on growth when it is either not accompanied by regulation or is accompanied by predictable, but flexible rules. Trimbath observes that one of the problems we see everywhere is that those providing capital like to set rules, and sometimes on the ground those rules can lead to costly mistakes. Her analysis is not ideological, but rather seeks to identify the best way to fund and structure cost effective infrastructure. She is not opposed to public infrastructure expenditure, she just wants to make sure that it pays off. In the past year, the U.S. Chamber of Commerce went on record in support of an increase in the gas tax. America's businesses seem to be in favor of paved highways.

What I took from Trimbath's work was that we must transcend the left wing ideology that government must "build baby build" and the right wind ideology that "only the private sector knows how to build" and approach the real, more complex issue. All infrastructure is not created equal. Some deliver pure public goods that cannot be priced by the market, require subsidies and involve issues of social equity, such as the infrastructure that delivers water or that transports motor vehicles. In contrast, some infrastructure is designed to help a private business build and operate a facility, like an entrance ramp from an interstate to a Home Depot and Costco. Some infrastructure is a good investment of public debt; some is not. A convention center or stadium is less essential than a water tunnel, sewage treatment plant, a bridge, a port or an air traffic control facility. Some infrastructure investments pay off faster than others. Some will always require a subsidy.

My concern is that the anti-tax ideology of the day is removing the public's voice in influencing the long-term shape of economic development. My particular fear is that the public resources needed to hasten the transition from fossil fuels to renewable energy will be impossible to generate. I see a federal investment in smart grid design and implementation as the modern day equivalent of the interstate highway project of the mid-20th century. Similar funding is needed to manage our water supply and waste management system and to update our transport system. The capital needed will come from many sources, but if government is not a major contributor it either will not happen or it will happen in a way that reduces access and opportunities for America's middle and working class.

A just society requires equality of access to information, energy, transport and economic opportunity. Capitalism will ensure that outcomes and the odds of success will remain unequal. That is the cost of a system that rewards individual achievement; the benefit is the productive economy many of us enjoy. However, only government can ensure that everyone has ***access*** to opportunity. Public funding of infrastructure is a critical element of that access. In my home city, everyone can ride the subway from home to work. My late grandfather could take the subway from his home in East New York to his job as a baker. Billionaire Mike Bloomberg took the same system from his townhouse to City Hall. Without that subway, my grandfather could not have gotten to work, my father and his brothers wouldn't have attended college, and I would not have had the opportunity to write this piece.