Why Republicans Should Abandon the Infrastructure Compromise with the White House

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The GOP should go nowhere near any trillion-dollar infrastructure deal with the White House. Reasons include the already enacted stratospheric COVID spending that couldn't have happened without Republicans, Joe Biden's proposed and unprecedented $6 trillion budget and his "build back better" ploy, the passage of a costly and misguided "U.S. Innovation and Competition Act," and worrisome talk of a global minimum tax on corporations.

These schemes are all illustrative of an untethered government that will be incapable of rational and stable infrastructure policy. The federal government doesn't have the money. We should be awash in infrastructure already given the nearly $30 trillion in debt we hold already.
There are problems beyond the spending. One is simply the observation that infrastructure duties properly fall to states, localities, and the private sector. Another concern is that federal infrastructure spending is hyper-regulatory.

On infrastructure compromise negotiations, Biden has dropped his demand for $2.25 trillion in spending to $1.7 trillion and has relented on some of the corporate tax increases. Lead Republican negotiator Sen. Shelly Moore Capito of West Virginia has offered $1.1 trillion over eight years. Where minority leader Mitch McConnell used to talk about $600 to $800 billion, a bipartisan group is now pitching around $878 billion.

The bipartisan compromise would allegedly be paid for over five to eight years. But of course, members' terms are only two and six years. Politicians continue to rob future generations of the flexibility to deal with their own affairs, from ordinary spending to crises.

The problem is that both political parties think government can steer big technology and frontier investment. While that commonality makes the threat of cramming through an infrastructure bill via the reconciliation process to avoid filibuster unlikely, it creates other vulnerabilities to the progressive agenda.

Republicans' pro-big government stance on infrastructure makes them less able to protect the nation from administrative state encroachment as they try to do in other contexts. If Republicans regard government as capable of steering on the largest scale, they have no sound basis for objecting to "simpler" federal navigation of middle-class K-12 education, retirement and health care, and all the other wish-list items being pursued and expanded upon in Biden's American Families Plan (AFP).

Indeed, Biden's AFP would overlap considerably in a Venn diagram with Biden's infrastructure proposals. Senate Transportation and Infrastructure Subcommittee Chairman Sen. Ben Cardin (D-MD) told NPR that an infrastructure plan has to be "bold," and that "when you're building back better, we have to have affordable child care and places that our children are safe to be in." He continued, "we can't negotiate our children's safety, so we need to have affordable, safe child care."

The alternative vision for infrastructure is that wealth creation, especially nimble and sustained large-scale infrastructure wealth, as well as the basic and applied scientific research at issue in the U.S. Competition and Innovation Act (and its Endless Frontier Act component), is not rooted in endless federal transfers. Rather, prosperity depends upon the introduction and evolution of property rights in complex and large-scale assets, both physical and intangible.

Further, prosperity requires that the production process be free of the disruptive gales of the federal appropriations process and its proposed government-sponsored manufacturing and technology hubs. In the modern surveillance and cyberattack settings, the government-centric approaches will also foster "helicopter government" and encourage regulation from a distance, particularly in smart cities heavily laden with public-private partnerships.

So, let's look briefly at some of the problems of the regulatory, industrial policy approach to infrastructure and tech investment. (A later post will look at alternatives.)

Government steering while the market rows creates artificial and unsustainable booms and ultimately constrains infrastructure. Contents are still sketchy, but elements are likely to bear similarities to prior big government infrastructure endeavors, as well as to the Endless Frontier Act, just agglomerated into the U.S. Innovation and Competition Act and likely to pass the Senate today. There exists a longstanding phenomenon of creating a government spending program that heavily influences the trajectory of a sector, then over time forgetting that it is regulation at all. This process constrains infrastructure in the long run.
Biden remarked, for example, of "building a nationwide network of 500,000 charging stations" and allocating nearly $200 billion for "investments" in plug-in electric vehicles as part of the American Jobs Plan proposal. Yet when entrepreneurial battery research makes range anxiety less of an issue, the layout of such stations will become obsolete (much like the C&O Canal). Normal service stations have toilets, refreshment kiosks, car washes, and tire pumps; that's a strong hint that an electric vehicle network is a job for the private sector rather than government.

Congress can't fund every kind of infrastructure and technology, of course, and politicians don't do tradeoffs well. Nor does spending equate with advancement of technology and infrastructure. The infrastructure and scientific advances notcreated owing to the political reassignment of taxpayer resources to this or that temporarily favored project or field are a significant unseen cost of anti-competitive government steering.

Taxpayer funding fosters too many conflicts. Americans have a right to fulfill their own hopes and dreams with the money an infrastructure package and all the rest would seize from them. When a friend of mine got excited about the prospect of subsidized rail from Charlottesville, VA to Washington some years back, my lighthearted response was to observe that, "It's cheaper for me if you ride the bus." But more seriously, along with the funding disruptions that characterize appropriations processes (don't forget the Superconducting Super Collider), taxpayer funding disrupts processes for sorting out complexities entailed in the creation of new kinds of assets.

For example, taxpayer funding creates avoidable and wasteful debates over the merits of basic vs. applied research and over the intellectual property status of federally funded discoveries. Public funding invites dubious claims of objectivity of government science compared to industry science and fosters suspicion of the latter. Government funding also could generate conflicts over public access to publicly funded raw scientific data upon which regulation of new industries will likely be based. All these distractions undermine wealth creation.

The damage done by government investment goes beyond undermining markets to that of allocating the spoils artificially. Government's more appropriate role is that of protecting rights in the property and wealth that new knowledge makes possible.

Taxpayer funding induces a view of technology as a zero-sum global race. Calling for "the biggest increase in federal non-defense R&D on record," Biden talked of "global leadership … up for grabs," and compared the U.S. unfavorably to competitors on spending. "America lags its peers—including Canada, the U.K., and Australia—in the on-time and on-budget delivery of infrastructure, and is falling behind countries like China on overall investment." Similar appeals are made by Republicans in the context of the infrastructure compromise and the Endless Frontier/U.S. Innovation and Competition Act package moving through the Senate.

Subsidies do not actually alter the ratio of GDP spent on research and development; one displaces the other. But more importantly, it was not the power of tax and dispense that United States leapfrog the world's economies in 100 years. The United States was the third-richest country on a per-capita basis in 1900—years before there was the income tax. It is the income tax which would now in large part fund Biden's infrastructure package, as Chris Edwards of the Cato Institute has noted.

Government funding comes with regulatory strings attached. Aggressive taxpayer funding is not compatible with a future of optimally and lightly regulated infrastructure, manufacturing, and technology, nor with limited government generally.

Most assuredly, there are plenty of businesses that desire government to support their pet project or provide protective regulation. And indeed, each of the realms Biden would boost is already heavily regulated by Washington. Like the many "build back better" packages in play this summer, the Republican infrastructure compromise would layer on regulation, compounding big new government programs with "good union jobs" that would likely boast defined benefit pensions of the sort that helped bankrupt states and created turmoil during debate on coronavirus bailout packages. The reality that the spending of trillions of dollars in a timespan of mere months will in turn trigger regulatory intervention is a feature rather than bug for progressives.

As regulatory spending grows, though, so too do safety and social risks. "Undiscovery" of risky technologies is not the norm. Market disciplines like liability and insurance need to evolve alongside innovations, but subsidies can propel risky technologies ahead of the normal ability to properly assimilate them.

To top it off, few of the regulatory ramifications of recent and forthcoming federal interventions will appear in regulatory cost estimates such as the Office of Management and Budget's Report to Congress on regulatory costs, nor get assessed in the aggregate as required by the Regulatory Right to Know Act.

Arbitrariness in infrastructure designation and the troublesome transformation of society. With infrastructure programs, government competes with the private sector in some key sectors but not others. The American Jobs Plan, for example, contains $100 billion for expanding "affordable" broadband, when high smartphone penetration in the U.S. is getting better and faster. We are adults with access to Home Depot, but the ADP seeks to "retrofit" millions of homes and commercial buildings for alleged green goals. It would spend $100 billion for overhauling the electric grid, something many thought they'd been paying for in rates to utilities that enjoyed exclusive franchises.

At stake in the AJP and any compromise is hundreds of billions on surface transportation, fixing highways, rebuilding bridges, upgrading ports, airports and public transit systems. But, as noted, these stand to get fused with Biden's social agenda as distinct from the traditional infrastructure itself. An example is the proposal to allocate billions to reconnect neighborhoods cut off by historic investments and ensure new projects increase opportunity, advance racial equity and environmental justice, and promote affordable access." Note how closely Biden's programs echo the 116th Congress' formative description of the Green New Deal, As it happens, the bipartisan infrastructure proposal would partly fund itself via a carbon dioxide fee that would exceed the Paris standard.

There should be more pushback on all this. Big government science and investment are long-time bipartisan passions with long pedigree. Republicans make similar noises as Democrats with respect to basic research being "underfunded." The result can be irrational infrastructure decisions that unfairly bind the future.

The mid-1990s saw the last of the sweeping proposals for reducing government, such as the privatizing of national labs, curbing business and corporate welfare, and proposed elimination of the Departments of Commerce, Energy, and Education and numerous agencies. These approaches contain the seeds of a real infrastructure wealth program, one less dependent on government. An upcoming post will take a further look at these sorts of options that expand the capacity of the private sector.