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Is a $2.3 trillion infrastructure plan right for America?

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At the height of the Great Depression, President Franklin Roosevelt put America to work. In 1935, when 1 in 5 Americans were unemployed, Washington launched the Works Progress Administration, still the largest public works initiative in the country's history. Its initial appropriation was $4.9 billion (about $90 billion in today's dollars), and within three years, it had provided jobs to 3 million Americans.

The WPA's scope still boggles the mind. Per Smithsonian Magazine, the project "built, improved or renovated 39,370 schools; 2,550 hospitals; 1,074 libraries; 2,700 firehouses; 15,100 auditoriums, gymnasiums and recreational buildings; 1,050 airports, 500 water treatment plants, 12,800 playgrounds, 900 swimming pools; 1,200 skating rinks, plus many other structures."

Equally mind boggling is the dollar amount attached to President Joe Biden's recently announced infrastructure proposal. At $2.3 trillion, the American Jobs Plan is turning heads across the spectrum, either for its ambition or for its price tag.

"It's a once-in-a-generation investment in America," the president said in a speech at the end of March. "It's big, yes. It's bold, yes, and we can get it done."

But America in 2021 is not the same country FDR led through its worst financial crisis. Infrastructure needs have changed with the rise of digital communications and faster modes of travel. Roosevelt spent a lot — his New Deal initiatives cost around $41 billion at the time — but that doesn't come close to government spending of the past decade, inflation notwithstanding.

Now, the Congressional Budget Office projects the ratio of public debt to the country's gross domestic product will hit 107% by 2031, which would be the highest mark in the nation's history. And unlike the politics of yesteryear, there doesn't seem to be much appetite on either side of the aisle to lower that number.

Given that environment, is President Biden's infrastructure plan right for America? The Deseret News reached out to economists and analysts from across the board to gather their insights. Their comments have been edited for length and clarity.

Where's the policy discussion?

By R. Richard Geddes, professor and founding director of the Cornell Program in Infrastructure Policy at Cornell University, via a phone interview

The plan, as I understand it, is to spend about $2.3 trillion on a variety of initiatives, only some of which are actually related to the delivery of heavy civil or social infrastructure. In other words, there are a lot of things that are combined in this plan that almost nobody who studies infrastructure would define as infrastructure — care for the elderly, etc. — which are normally under the heading of various social programs.

It's troublesome to see these all combined in an initiative where it seems like there's very little policy. More than half of the plan appears to be spending on things that are not normally considered to be civil infrastructure. If you just take those that are — water and roads and bridges — it doesn't appear to have much in the way of policy reform or changes in the way infrastructure is delivered in the United States. ...

In other words, it appears to take a one-size-fits-all approach, which is the notion that federal spending on these sectors is going to have tremendous effects on outcomes. And that raises a whole set of questions. ...

Federal infrastructure is mainly military — Army, Navy, Air Force, Marine bases, etc., in addition to some small stuff — but really the majority of civil infrastructures is owned by state and local government. The question that's raised is, how does this federal plan expect to deal with the interaction between the federal government and state and local governments? ...

The second issue is U.S. infrastructure delivery in the United States has problems, and there are things the federal government could do in a plan and a bill that would improve infrastructure delivery, but they require policy reform. And so the concern with this plan is that there doesn't seem to be discussion of policy reform. ...

What is the situation in the United States today? We're not in 1956 anymore, where we need to design and construct a massive interstate highway system. We're not in the early part of the 20th century where we need to build an electric system. ... The policy problem today is, how do we more efficiently operate and maintain the infrastructure that we have?

There are a few limited cases where we might need to extend the interstate highway system, or something like that, which would require new construction. But the vast majority of the problem that we face today is better, more efficient operation and maintenance of the aging systems that we have. ...

We're in a historically low interest rate environment. And if you look at any data on interest rates, they're going to go up. And and there are plenty of studies by various nonpartisan groups that show as interest rates on the federal debt go up, interest is going to start to chew up a larger and larger fraction of federal government spending. It's going to crowd out other things. It's going to put unwanted constraints on federal spending where Congress or the president might want to spend on other things. I just worry that once interest rates return to sort of a normal level that we'll find ourselves highly constrained by servicing the federal debt.

The markets aren't enough

By Rudiger von Arnim, associate professor of economics at the University of Utah, via a phone interview

It’s hard to say what infrastructure really is. There is a lot of history and academic research that supports the notion that infrastructure goes beyond a bridge. In the social sciences, which includes economics, you have the notion that the assumption of something like social infrastructure, also called social capital, can be very broadly conceived as encompassing all the things that are in this plan, even though it is, in the way that that Congress negotiates these things, a somewhat unusual approach. But it’s not something that makes sense to dismiss just because it hasn’t been discussed in this way. ...

For example, the provision of health care services to the general population is what we would consider part of our infrastructure. The science of economics is crystal clear on this: You cannot provide health care services through markets alone. That sets you up for failure. The government definitely has a large role to play in the provision of health care services, and in that sense also in the infrastructure of all the systems that provide it. ...

Famously, Dick Cheney said deficits don’t matter, and Republicans generally say that deficits matter when Democrats are in the White House or control Congress, but when Republicans are in power, they do not act as if deficits matter. ...

In times like these, where we have vast numbers of unemployed, and we have no problem in servicing the debt because interest rates are so low, there is no scientific argument that we should be concerned about this.

We’ve gone through this before 10 years ago, when the opposition to the American Recovery and Reinvestment Act led to strong opposition by Republicans in Congress thinking that the debt matters. But it did not matter because interest rates were very low and it was easy to finance the debt and any kind of problem that arose arose because of the unwillingness of Congress to roll over debt. ...

Neither the deficit nor the debt are a concern right now because interest rates are so low and will be for the foreseeable future. If we were Greece or some other country that does not have the kind of backbone in the economy and control over its own currency in the way that the U.S. has, then the story might be a little different. But that’s not the case; the U.S. simply does not have a problem with this currently. ...

What does it help anybody to have no debt and an economy that doesn’t work? To have bridges crumbling, the internet not working, schools being underfunded — these are all issues that the richest country in the world should not have. That’s a simple truth. These things cannot be provided by markets, so they need to be supported and incentivized and also financed by the government, and it will be a benefit to everybody who lives in this country.

It’s full of contradictions

By Chris Edwards, director of tax policy studies at Cato Institute and editor of DownsizingGovernment.org

Washington is on a spending spree. President Trump approved $3 trillion in pandemic relief last year, and President Biden approved another $1.9 trillion in March. All this spending has gone on the national credit card, which has an accumulated balance of $22 trillion, or $172,000 for every household in the nation.

Biden is now proposing another $2 trillion in spending, this time for infrastructure. He apparently recognizes that we can't borrow-and-spend forever, so his plan is financed by a massive corporate tax increase rather than debt. Nonetheless, his plan makes no sense because of three major contradictions.

The first is that Biden's corporate tax increase would undermine America's infrastructure because most of it is owned by the private sector, such as the broadband network and the electric grid. While Biden would subsidize broadband by $100 billion, the electric grid by $100 billion, manufacturing by $300 billion, and electric vehicles by $174 billion, corporations in those industries would slash their own investment in the face of Biden's large tax hike. It would be a wasteful circular flow of cash from corporations to Washington in higher taxes, and then back to politically favored corporations in subsidies.

That raises the second contradiction. During the presidential campaign, Biden said "we do not reward corporations, we reward individuals," and he complained that Trump's "strategy is trickle-down economics that works for corporate executives and Wall Street investors, but not working families." But Biden's own plan features trickle-down corporate subsidies.

All the subsidies would create a third contradiction. Biden's plan is supposed to help mitigate climate change, but the green way to fund infrastructure is through user charges that restrain consumer demand. Gas taxes restrain automobile use; water charges restrain water use; and airport charges restrain airport use. But Biden's plan includes large new subsidies for automobiles, water systems, airports, and other facilities — all funded by income taxes, not by pro-environment user charges.

Biden's infrastructure plan is a bad solution looking for a problem. The private sector is already investing billions of dollars in infrastructure favored by the president, such as electric vehicles, broadband and the electric grid. Many states have raised their own gas taxes in recent years to invest more in highways. The nation does not need a big new spending plan from Washington, especially one funded by infrastructure-killing corporate tax increases.

Putting the debt in context

By Dean Baker, senior economist at the Center for Economic Policy Research

President Joe Biden's recovery and jobs plans have led to considerable alarm over the resulting increases in the deficit and debt. Most of these concerns are misplaced.

The issue of whether a deficit is too large depends entirely on whether it causes us to push the economy too far, leading to inflation. The deficit for last year was $3.1 trillion, which was equal to 15.2% of GDP. This was by far the largest deficit, relative to the size of the economy, since World War II.

Yet, the inflation rate actually slowed in 2020, as the pandemic related shutdowns created an enormous gap in demand in the economy. It would be difficult to find any major sector of the economy that was operating near its capacity last year, and therefore raising prices.

The question going forward is whether President Biden's spending proposals, coupled with his tax increases, are likely to push the economy so far that it will not be able to meet the demand created. That is not impossible, but it does seem unlikely. We have not seen a serious problem with demand generated inflation in more than four decades.

The other side is the burden created by the debt. There is huge confusion on this point, as people often get scared by politicians throwing around “trillions” of dollars. The numbers are huge, but so is our economy.

The latest projections from the nonpartisan Congressional Budget Office, which include the effects of President Biden’s recovery plan, but not his investment and jobs proposal, show the interest burden of the debt being 2.4% of GDP in 2031. By comparison, the interest burden was well over 3.0% of GDP in the early and mid-1990s. The idea that this burden will somehow bankrupt our kids is nonsense.

Furthermore, the people who complain about the debt almost never comment on the other ways that we create burdens for future generations. Most obviously, government-granted patent and copyright monopolies are an enormous burden. These monopolies raise the price of prescription drugs, medical equipment, computer software and other protected items by many thousand percent above their free market price. The burden in the case of prescription drugs alone is close to 2.0% of GDP, and rising rapidly.

If we want to talk seriously about burdens facing our children, the government’s debt is a tiny part of the picture. We will hand down to them a whole economy and society, including the natural environment. If we paid off the national debt, but left an economy in ruins and a devastated environment, we will not have done our children any favors.