Rebuilding America: Cato offers plan for more state control

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As the Trump administration works to put together his promised $1 trillion infrastructure investment plan, multiple stakeholders have been waiting to offer their critique of the legislation. Though a detailed plan is still months away, some things have become clear: Trump envisions less federal spending and more state and private investment spending.

In a recent Tax and Budget Bulletin, the Cato Institute's Chris Edwards lays out the argument for why that is the proper approach to building a world-class infrastructure.

According to Cato's calculations, "the federal government owns 13% of the total [infrastructure] while state and local governments own 87%.

"The federal government owns just a small share of the nation's infrastructure, but it exercises control over state, local, and private infrastructure through taxes and regulations," Edwards writes. "Federal policymakers should reduce these interventions to spur an increase in investment, and they should reform federal policies that bias state and local governments against privatization."

The Cato Institute believes in individual liberty, limited government, free markets and peace.

Trump's $1 trillion infrastructure plan is expected to rely heavily on private investment for close to $800 billion in investments. That is in line with Edwards' point about government investment in infrastructure.

"Policymakers should cut federal spending on infrastructure, not increase it, by privatizing some federally owned assets and phasing out federal aid to the states," he writes. "Those two reforms would cut federal infrastructure spending by three-quarters — from about $124 billion a year to $31 billion."

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Reducing the federal government's role in infrastructure would spur private investment and more efficient state and local investment, says Edwards. "Everyone agrees that improving America's infrastructure would raise living standards and improve our business competitiveness. The way to get there is through decentralization and market-based reforms."

The Cato Institute released a graphic, "Seven ways to improve infrastructure policy without spending a dime." The graphic notes the following areas of reform:

Privative airports, air traffic control and Amtrak

1. Localize responsibility for infrastructure spending and taxation as much as possible
2. Remove barriers to tolling, road pricing and airport charging
3. To get more "bang" for the taxpayers buck, use cost benefit analysis to allocate funds
4. Remove the income tax exemption for municipal bond interest income
5. Streamline environmental regulations which delay and raise the cost of projects
6. Repeal the Davis-Bacon Act and Buy American regulations

In his preliminary infrastructure investment announcement, Trump called for privatizing the nation's air traffic control system and many have argued for privatizing Amtrak, which continues to lose money.

"While the federal government owns relatively little infrastructure, its policies have a large effect on the infrastructure owned by the state, local, and private sectors," Edwards argues. "The federal government is the tail that wags the dog on the nation's infrastructure — and not in a good way."

According to Edwards, federal laws and regulations only increase costs and slow down construction projects, even though many of those projects are for infrastructure that is actually owned by the states, including schools and other state and local buildings.

"Although some federal interventions may be beneficial, the accumulated mass of regulations, subsidies, and taxes has created a growing hurdle to efficient investment," Edwards says. "For example, the average time for states to complete reviews for highway projects under the National Environmental Policy Act increased from 2.2 years in the 1970s to at least 6.6 years today. The number of environmental laws and executive orders affecting transportation projects has increased from 26 in 1970 to about 70 today.

"Federal subsidies for infrastructure distort the capital investment choices made by state, local, and private owners. And federal taxes reduce the return to investment in private infrastructure across every industry," he adds.

Edwards goes on to argue that by reducing barriers to state, local and private projects, such as reducing taxes, the country would see an increase in investment.

“By one estimate, cutting the corporate tax rate from 35% to 15%, combined with other business tax reforms, would increase the private capital stock by $10 trillion within a decade,” he says.

Finally, reducing federal involvement would lead to better decision making and provide clear paths of responsibility, Edwards notes.

“Decentralization makes sense in a large country because dispersed decisionmakers can balance the costs and benefits of local capital investments better than faraway officials in Washington can,” he says.

“We often see states delaying projects when slow federal bureaucracies or the uncertain federal budget process hold up part of the funding,” Edwards adds. “The states are entirely capable of owning and funding infrastructure without federal aid and direction. States can tax, borrow, collect user charges, and attract private investment to fund their highways, bridges, airports, seaports, and other infrastructure. State decisionmakers are closer to infrastructure users than are federal officials, and they are better suited to make those calls. Reducing the federal role would free the states from costly rules and increase state incentives to fix their own infrastructure in a proactive manner. Asset ownership conveys responsibility; federal intervention diffuses it.”