Committee for a Responsible Federal Budget

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Statement for the Record for the Committee on Ways and Means
Hearing on "Our Nation's Crumbling Infrastructure and the Need for Immediate Action"
March 6, 2019

Chairman Neal, Ranking Member Brady, and distinguished Members of the Committee on Ways and Means:

Thank you for the opportunity to provide written testimony for the Committee's March 6 hearing on "Our Nation's Crumbling Infrastructure and the Need for Immediate Action."

Policymakers in Washington have turned their attention to infrastructure, with members of both parties putting forward competing proposals to boost federal funding for roads, bridges, waterways, and other public works from $200 billion to over $1 trillion within the next decade. Considering that the last attempt to fix the Highway Trust Fund—the 2015 FAST Act—included budgetary gimmicks like pension smoothing as pay-fors, it's genuinely encouraging to see this committee exploring legitimate offsets to potential future infrastructure spending.

Members of the public, transportation experts, and lawmakers—including several on this committee—have raised concerns over the state of the nation's infrastructure. Efforts to repair and modernize deficient infrastructure assets could have a meaningful impact on economic growth. However, infrastructure should not be the latest addition to the growing list of unpaid-for legislation. Ramping up infrastructure spending without paying for it would not only worsen our already grim budget outlook, it would also undermine the pro-growth effects these proposals might have.

Failure to insist on offsets will likely reduce the quality of any infrastructure package because lower-priority spending is more likely to emerge when it appears costless and tradeoffs need not be considered.

Fortunately, there are numerous options for lawmakers to pay for new infrastructure funding, including several that have received bipartisan support and could help ensure that public infrastructure assets are used in an efficient manner.

In this testimony, we:

- Explain why any new infrastructure funding must be paid for if it is to have a meaningful positive impact on economic growth;

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- Summarize analysis of the economic impact of recent infrastructure investment proposals;
- Review potential options for financing new infrastructure initiatives; and
- Recommend that lawmakers ask for macroeconomic analysis from Congressional agencies to help them maximize economic growth in any infrastructure package and ask Congressional agencies to study the macroeconomic effects of different types of federal investments.

Ultimately, increased investment in public infrastructure can be an important element of an overall economic growth strategy. But if doing so means adding to the country's already massive level of debt, it will ultimately do more harm than good.

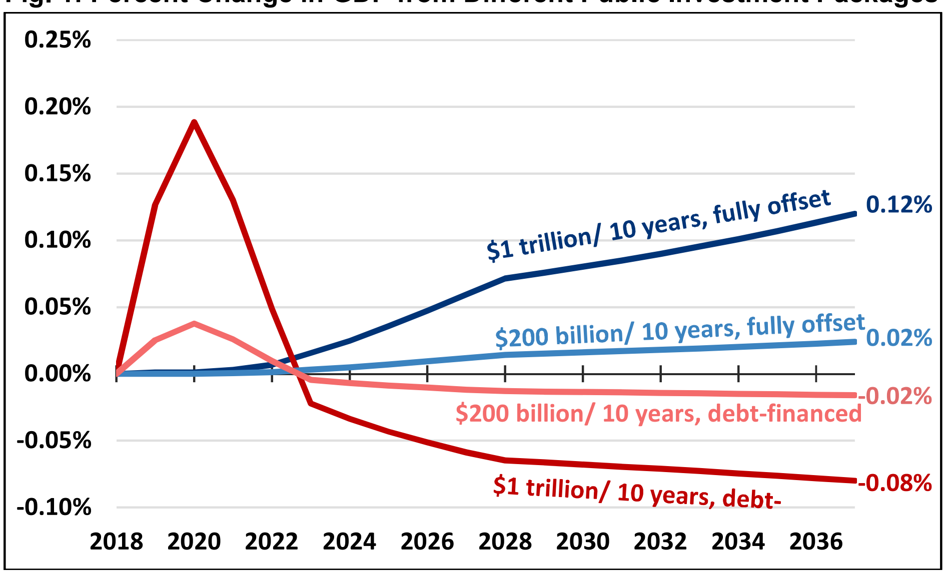
Any New Infrastructure Spending Must Be Paid For

A well-designed infrastructure package can improve public welfare, increase the nation's capital stock, and improve economic output.

If financed with additional federal borrowing, however, the positive economic effects of infrastructure spending will shrink or disappear as a result of the growth-impeding effects of higher debt. The benefits of increased public investment will be negated over the long run by reduced private investment.

In June 2016, the Congressional Budget Office (CBO) analyzed the impact of various increases in federal investment, which CRFB has summarized and analyzed.

Fig. 1: Percent Change in GDP from Different Public Investment Packages



Source: CBO, CRFB calculations.

Applying CBO's analysis to a generic $1 trillion infrastructure package, we estimate such a package would increase Gross Domestic Product (GDP) by 0.12 percent after two decades if offset in a growth-neutral way (some offsets themselves may be pro- or anti-growth). However, if the exact same trillion-dollar infrastructure package were debt financed, it would *shrink* GDP by 0.08

percent. Similarly, a $200 billion plan with offsets would increase GDP by more than 0.02 percent, while a non-offset plan would shrink it by nearly 0.02 percent.

The Penn Wharton Budget Model (PWBM) reached a similar conclusion in its analysis of infrastructure plans put forward by President Trump and by Senate Democrats. For example, PWBM found the President's $200 billion plan would increase GDP by up to 0.1% if offset but would *reduce* it by up to 0.1% if not. [1]

Fig. 2: Effects of the President's Infrastructure Proposal (Percent change in 2037)

Financing	Debt	GDP	Public Capital Services	Private Capital Services
Deficit-Financed	0.7% to 0.5%	-0.1% to 0%	0.1% to 0.8%	-0.2% to -0.1%
Financed with User Fees	0% to -0.2%	0% to 0.1%	0.1% to 0.8%	0% to 0.1%

Source: Penn Wharton Budget Model.

Part of the reason that CBO and PWBM find such small (and potentially negative) effects of infrastructure spending is that increases in federal infrastructure spending tend to lead state and local governments to spend less on infrastructure. Both CBO and PWBM assume a significant offset, backed up by a considerable body of research. Additionally, federal infrastructure spending often has lower economic returns than one would expect, since various regulations and rules inflate costs and highly political decision-making reduces the economic growth effects of selected projects. It is important to distinguish between macroeconomic returns, local economic returns, and social returns. Projects that may benefit a state or locality and produce social benefits do not necessarily have significant effects on the nation's economy.

Policymakers interested in strengthening the economy would therefore be wise to design a package that would indeed maximize economic growth and avoid some of the pitfalls described above.

Since CBO and PWBM are both, to some degree, based on averages and generic packages, policymakers may be able to do more to promote growth by developing smarter infrastructure packages. In any case, however, they are likely to generate more growth by paying for infrastructure spending rather than debt-financing it.

To design the most pro-growth infrastructure package, lawmakers should also ask the Joint Committee on Taxation and Congressional Budget Office for macroeconomic analysis of any major infrastructure package for advisory purposes and ask them to study the macroeconomic effects of different types of federal investments.

[1] Because Senate Democrats propose specific tax increases to finance their $1 trillion infrastructure plan, PWBM analyzes the effect of those increases rather than a growth-neutral offset. They estimate the Senate Democrats' plan would ultimately reduce GDP by 0.2 to 0.3 percent if offset with individual income, corporate, and estate tax hikes but by 0.7 to 0.8 percent if deficit financed.

Options for Paying for Infrastructure

If greater federal infrastructure spending is to have any chance of meaningfully increasing output, then it needs to be paid for. There are many different options for doing so, though ideally any revenue source would both finance new spending and eliminate the existing $159 billion funding gap associated with the Highway Trust Fund.

While offsets can come from anywhere in the budget or tax code, policymakers should consider infrastructure-specific policies. In the past, we've identified numerous options for increasing current infrastructure revenue, identifying new revenue sources, reducing low-value infrastructure spending, or identifying offsets from outside of the Highway Trust Fund. We've walked through many of these options in our paper Trust or Bust: Fixing the Highway Trust Fund, and put forward our own illustrative plan in The Road to Sustainable Highway Spending.

On the revenue side, the most straightforward option would be to raise the gas tax. Roughly speaking, each 10-cent increase in gas and diesel fuel taxes raises $100 billion over a decade. Closing various gas tax loopholes, eliminating special rates, and indexing for inflation could all raise additional revenue.

Other revenue options range from adopting a Vehicle Miles Traveled (VMT) fee to enacting a freight tax to imposing a tax on oil to establishing a surcharge for drivers' licenses. The table below includes a number of options, most of which are scalable (for example, if a $1-per-barrel oil tax raises $30 billion, a $10-per-barrel oil tax would likely raise almost $300 billion). All estimates are rough.

Fig. 3: Revenue Options to Pay for Infrastructure

Options Raise Infrastructure-Specific Revenues	Ten-Year Revenue
Increase the gas and diesel fuel tax by 10 cents	$100 billion
Enact a freight tax of 5 cents/mile for trucks and 2 cents/mile for rail	$60 billion
Impose vehicle registration fee of $10 on light vehicles and $20 on trucks	$40 billion
Impose 0.1 cent-per-mile Vehicle Miles Traveled (VMT) fee	$35 billion
Index gas and diesel fuel taxes for inflation	$30 billion
Impose a $1-per-barrel oil tax	$30 billion
Increase truck and trailer tax from 12% to 20%	$30 billion
Institute $10 driver's license surcharge	$25 billion
Repeal special gas and diesel tax rates on certain fuels	$20 billion
Double heavy vehicle use tax	$15 billion
End Section 179 "SUV loophole"	$10 billion
Establish new rail safety and inland waterways fees	$10 billion
Allow great use of bridge and highway tolls	varies

While it is outside of this committee's jurisdiction, policymakers could also consider reducing or improving the efficiency of current infrastructure spending and reallocating those funds to new spending. Some ideas – for example repealing Davis-Bacon – would allow the federal government to produce the same amount at a lower cost. Others such as eliminating grants to large airports might just allow the government to spend money more efficiently.

Fig. 4: Spending Options to Pay for Infrastructure

Options to Reduce Existing Infrastructure Funding	Ten-Year Savings
Limit federal highway spending to revenue (require states to cover difference)	$115 billion
Terminate Private Activity Bonds	$40 billion
Eliminate the Community Development Block Grant	$25 billion
Eliminate Capital Investment Grants	$25 billion
End funding for Amtrak and Essential Air Service	$20 billion
Repeal Davis-Bacon Act	$15 billion
Sell various electricity transmission assets	$10 billion
Reform the National Flood Insurance Program	$10 billion
Reduce funding to Highway Safety Improvement Program	$10 billion
Eliminate grants to large and medium-sized airports	$10 billion
Terminate funding for the Transportation Alternatives Program	$10 billion

Source: CBO, Office of Management and Budget, Federal Highway Administration, and CRFB calculations.

Policymakers should also consider ideas that empower the states to pursue innovations in financing, management, and investment. For example, state-led adoption of vehicle-miles traveled fees could not only finance critical infrastructure but also reduce pollution and congestion by encouraging changes in utilization patterns.

Conclusion

Policymakers in both parties have come forward with distinct proposals to significantly increase infrastructure investment and to their credit, provided offsets. Without offsets, neither would have a meaningful impact on economic growth. Again, it's very encouraging to see this committee exploring legitimate offsets for potential future infrastructure spending, as opposed to relying on budget gimmickry.

Importantly, even if new infrastructure spending were fully paid for, the federal budget would still be on an unsustainable fiscal trajectory with trillion-dollar deficits set to return permanently in 2022, if not sooner. The best strategy for growth would be to pair any increase in public investment with a comprehensive plan to boost labor force participation, encourage innovation, promote investment, and – perhaps most importantly – bring the unsustainable growth of our national debt under control.