

Get cracking on infrastructure, or continue to pay the price

Updated: August 25, 2017 — 3:01 AM EDT



Rich Pedroncelli / AP

Highway-repair work in 2014 in West Sacramento, Calif. Our rickety infrastructure costs the economy close to 2 percent of GDP each year — about as much as the economy grows annually.

by **Mark Zandi**, FOR THE INQUIRER

Our politics may be fractured, but there is one issue nearly all of us agree on: We need better roads, bridges, dams, seaports and airports, water systems, electric grids, and internet connectivity. That is, we need better public infrastructure.

In the Philadelphia area, we understand this very well. A car ride between the suburbs and Center City on the Schuylkill Expressway or I-95 is too often a struggle. SEPTA train and bus delays are commonplace. And you have probably lost electricity for hours (even days) more than once due to a thunderstorm or ice storm.

Statistics on the costs of poor infrastructure are daunting: Each American household spends an astounding 50 hours stuck in traffic each year, costing a collective \$120 billion in fuel and lost time. Businesses lose \$30 billion in freight costs due to bad roads. The flimsy electric grid leads to weather-related outages that cost an additional \$35 billion. Then there are the costs of delays in air travel, collapsed bridges, leaking levees, faulty or no internet connections, and water-main breaks.

Adding it up, our rickety infrastructure costs the economy close to 2 percent of GDP each year — about as much as the economy grows annually.

In the past, we found the political will to invest aggressively in infrastructure, and our economy benefited enormously. Most obvious was the building of the interstate highway system in the 1950s and '60s, which supercharged economic development of the nation's suburbs. (The Schuylkill Expressway, completed in 1959, is technically Interstate 76, although its design predates the system.)

Similar benefits would accrue now if we expanded the highway, rail, and telecommunications systems to isolated and economically depressed communities such as central Pennsylvania, West Virginia, and Kentucky. These places have been nailed by globalization and the opioid crisis. Even if a hard-pressed family living in Lebanon, Pa., wanted to move to Philadelphia for a job, it probably couldn't afford to, given the much-higher house prices and living costs.

Instead, with new infrastructure, businesses could rush into those communities, attracted by their hardworking populations and low costs. A build-it-and-they-will-come strategy has marked our nation's history, and should be our future.

President Trump seems to be on board. He proposed a \$1 trillion infrastructure plan when he was a candidate. President Barack Obama was also a huge infrastructure fan. The fiscal-stimulus legislation he signed early in his presidency to jump-start the economy during the Great Recession featured a large increase in infrastructure investment.

So with both Republicans and Democrats in favor, what's the holdup?

As with everything in Washington, efforts to ramp up infrastructure spending are hostage to the Trump administration's dysfunction. The president used his recent Trump

Tower news conference to disastrously revise his views on what happened in Charlottesville, instead of selling his infrastructure proposal, as was originally intended.

Cost is also an issue. Investing in infrastructure has a big economic return, but — as with tax cuts — not big enough to pay for itself. With the government's running a large budget deficit and shouldering a heavy debt load, we shouldn't do things we can't pay for.

Getting private investors involved through public-private partnerships would help. In PPPs, investors fund projects and take on some project risks and responsibilities in exchange for a return on their investment. Because investors are motivated to get the best returns, they ensure that the most economically viable projects get done, not the pork-barrel projects that government officials might prefer.

Reviving a popular financing tool included as part of President Obama's fiscal stimulus plan, Build America Bonds, would provide an important boost. BABs are a twist on traditional municipal bonds, making them even more advantageous to state and local governments looking to expand their infrastructure investments.

Increasing the federal gasoline tax — a key source of funding for the nation's transportation infrastructure — also makes lots of sense. It has not been increased in nearly a quarter-century. Given that gas prices are low and likely to stay low due to the fracking boom in oil production, this would be an opportune time to raise the tax.

A carbon tax, levied on all carbon-producing activities, would be even better. It would generate lots of revenue to pay for more infrastructure and would address our mounting problem with climate change. Unfortunately, this is a political bridge too far, so to speak.

The economic case for significantly expanding infrastructure investment is clear, and both Republicans and Democrats are making the political case. So let's get it done.

Mark Zandi is chief economist at Moody's Analytics. help@economy.com