THE BROOKINGS INSTITUTION

AMERICA'S INFRASTRUCTURE:

RAMPING UP OR CRASHING DOWN

Washington, D.C.

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Welcome:

BRUCE KATZ
Vice President and Director
Brookings Metropolitan Policy Program

Keynote Speaker:

THOMAS VILSACK
Of Counsel, Dorsey & Whitney, LLP
Former Governor of Iowa

PANEL ONE:

CAN WE AFFORD TO INVEST? CAN WE AFFORD NOT TO?

Moderator:

BRUCE KATZ
Vice President and Director
Brookings Metropolitan Policy Program

Panelists:

MARTIN BAILY
Senior Fellow, The Brookings Institution

DOUGLAS HOLTZ-EAKIN
Senior Fellow, Peterson Institute for International Economics

RICHARD D. BARON
Chairman and CEO, McCormack Baron Salazar

MARY SUE BARRETT
President, Metropolitan Planning Council, Chicago

PANEL TWO:

INNOVATIVE WAYS TO STIMULATE EFFECTIVE INVESTMENT

Moderator:

NEAL PEIRCE
Chairman, The Citistates Group

Panelists:

GEORGE BILICIC
Managing Director, Global Power & Utility Group of Lazard

ROBERT DEHAAN
Deputy Assistant Secretary for Transportation Policy
Department of Transportation

LEO HINDERY
Managing Partner, InterMedia Partners

RON SIMS
King County Executive
King County, Washington

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P R O C E E D I N G S

MR. KATZ: Good morning, everyone. Thanks for coming out today. I'm Bruce Katz. I'm Director of the Metropolitan Policy Program at the Brookings Institution.

As you may have realized, we renovated our auditorium over the summer. So for me this is a test to see whether everything actually works. But we'll figure that out as we go along.

I want to welcome you to what is the third Bernard L. Schwartz Forum on Competitiveness. This morning we heard a talk about infrastructure, and now, of course, most people don't use this term in their daily life. In fact, Margaret Thatcher once said to an audience like this, "You and I come by road or rails; it's the economists that travel on infrastructure."

Nevertheless, infrastructure at large has a dramatic effect on the economic life of our nation, the health of our environment, the quality of life of our citizenry. An infrastructure—our ports, our airports, our bridges, our roads, our rail and transit networks, our water and sewer systems, our web of channel communications—the connective tissue of our nation. Smart policies and investments do have the potential to enhance and further national prosperity and the health and vitality of, particularly, those places, our metropolitan areas where the bulk of our population's lives and our jobs are located.

In our view, smart policies and investments on infrastructure can foster productive growth in our economy, sustainable growth that furthers energy independence and real solutions to climate change, and inclusive growth so that low and moderate-income families have access to opportunity.

But infrastructure opportunities abound in our country today, and they compel us to think out of the box and outside the nation for systemic structural solutions. First, we all know about a number of high tragic profile failures of our existing infrastructure from the levees in New Orleans, to the steampipe explosion in Manhattan, to the bridge collapse in Minneapolis over the summer. There's tremendous concern about the current state of infrastructure that exists in the United States today and what impact that neglect is having on our nation's communities, particularly our suburbs, cities, and metropolitan areas.

Second, there is also concern about what kind of infrastructure we're building today. Alaska's infamous "bridge to nowhere" became a catch phrase for a political and decision-making process in this town that is an undisciplined free-for-all. To many observers, the words "infrastructure" and "pork" are more commonly associated than the words "infrastructure" and "competitiveness." And what gets less attention is how these ill-advised, unaccountable investments are crowding out the ability to invest in what really matters for metros and nonmetros alike.

And, third, we all know that our global competitors are making strategic investments in the infrastructure that drive the productive, sustainable, inclusive growth in their own countries, for the aggressive advances in telecommunication infrastructure, the strategic next generation rail investments in Germany and Spain, and other parts of relatively slow-growing Europe, to foundational investments to facilitate fast growth and accommodate the massive urbanization underway in China, India, and other parts of Asia.

I was telling some of the panelists this morning I spent part of the summer listening to some of the German and British transportation ministers talk about how they approached the issue of infrastructure in their country. What's so interesting was this phrase they constantly use of being "modally agnostic;" of basically saying, "Well, what's the problem," and that perhaps there's a rail solution, or perhaps there's a road solution, or perhaps there's a different kind of infrastructure we need to think about as opposed to starting with a siloed and stovepipe approach, and then proceeding from there.

Now, many are concerned that by failing to reinvest in our existing infrastructure, by making the wrong kinds of investments in new infrastructure, we will not be capable of maintaining our competitive edge or dealing with the major environmental and social challenges of our time. So related to all this -- and we will talk about this, this morning -- is the paramount issue of funding: How we think about spending for infrastructure, not just at the federal level but throughout our federal system, what are fair and dependable revenue sources, what level of government does what, how we leverage private sector investment are all part of the puzzle.

So we're here today to talk about challenges, we're here to talk about solutions, and we're here to talk about Washington's favorite topic: Money.

As I mentioned, this is the third in a group of discussions entitled The Bernard Schwartz Forum on U.S. Competitiveness. This is a new series of Brookings of focus-oriented solution, oriented discussion on a subject of vital importance to our nation and to our standing in the world, a performance made possible by its namesake, Bernard Schwartz, the retired Chairman of the Board and CEO of Loral Space and Communications, and current Chairman and CEO of

BOS Investments, a private investment firm, and Bernard is here today, and I just wanted to recognize him in the audience.

He has been a champion for the right kind of strategic infrastructure investment and has spent considerable time with groups like the Center for Strategic and International Studies to raise awareness and stimulate a dialogue about America's mounting infrastructure problems.

We are also honored to have with us today our keynote speaker, Thomas Vilsack, the former Governor of Iowa, who is currently of counsel at the law firm of Dorsey & Whitney, and more on Governor Vilsack in a moment.

Now, the Governor's keynote address will be followed by a first panel which will focus on the big picture macro issue regarding infrastructure. It will address two main questions: Can we actually afford to invest in infrastructure given the current budget situation? And, Can we afford not to invest in infrastructure, given what has already happened in Minneapolis, New Orleans, and other places and giving the productivity benefits that we know accrue the proper accountable strategic deliberate investments.

And that panel will consist of Martin Baily from Brookings; Doug Holtz-Eakin from the Peterson Institute for International Economics and a former Director of CBL; Richard Baron from McCormack Baron Salazar, the premier affordable housing developer in our view in the country; and Mary Sue Barrett from the Metropolitan and Planning Council in Chicago, one of the oldest and most influential regional civic alliances in the nation.

Now, the second panel will then focus more on the implementation challenges before us: How do we innovate in infrastructure policy? What are the new partnerships, the new tools, the new metrics, the new analytics that will enable us to use infrastructure as a means to broader national ends and priorities? And how does the federal government not just reflect the demand for smart policy but capture the innovations that are bubbling from below? And that panel will be moderated by Neal Pierce from the City States Group and includes George Bilicic from the Global Power and Utility Group of Lazard; Tyler Duvall, the Assistant Secretary for Transportation Policy at the U.S. Department of Transportation; Leo Hindery from the InterMedia Partners; and Ron Sims, County Executive for King County outside Seattle in Washington state.

Now, in what may be an unnatural act for a Washington-based think tank, the panels would not be making prepared speeches. If they do, I'll have to cut them off, or Neal will have to cut them off, and there are no power point slides, but there will be ample opportunity for questions and answers from the moderators and from the audience. And the goal is to, obviously, engage in open, provocative and wide-ranging discussion.

So let's begin. It's my pleasure to introduce former Governor Tom Vilsack from the great state of Iowa. As many in this room know, he served as governor from 1998 to 2006. As governor he received a well-deserved national reputation on improving education, particularly in early childhood; expanding health care to the uninsured; making the state a national leader in renewable energy which we were just talking about; and creating a nationally-recognized efficient and accountable state government.

And, during two terms as governor, Governor Vilsack established relationships among really all levels of local, state, and federal government in very innovative and accountable ways, and worked closely with Iowa-based or national companies involved in Iowa commerce.

So it is a real pleasure to introduce Governor Vilsack from the great state of Iowa.

GOVERNOR VILSACK: Bruce, thanks very much, and good morning to everyone. I appreciate the opportunity to be here, and I do want to thank Bernard Schwartz and the Brookings Institute for giving us this opportunity to talk about something that's extremely important for the future of this country.

I think it's important for me to tell you how I got started in the infrastructure business. I come from a small town in Southeast Iowa, a town of eight thousand people called Mount Pleasant. I was a practicing lawyer in 1986, in December of 1986 when the city council decided to have its annual budget meeting. At that meeting the mayor and six council members were discussing a sewer project, and in walked a citizen who had been upset about the fact that a sewer problem that he had experienced in his home had not been rectified. He was so upset that he took into the council meeting a loaded revolver. He emptied that revolver in the council meeting. He shot and killed the mayor and seriously wounded two council members.

Following that tragedy, the mayor's father asked if I would consider running for mayor in the hopes of finishing his son's legacy work, and as a result of that very tragic experience, I became well aware of the significant role that infrastructure plays in individual lives.

Now, you're going to talk about the big picture in the national interest and competitiveness. The reality is that infrastructure impacts and affects every citizen in this country in a significant personal way, and it is an important issue. And, frankly, it's an issue that has not, in my view, been dealt with appropriately at very many levels of government.

And I'm going to state the obvious as part of the keynote address: Why is it important to focus on infrastructure? Several reasons have already been alluded to. Obviously, the safety and security of individual citizens is at risk if infrastructure's not handled properly. We've seen recent examples of that.

I would suggest to you that there are issues of national security involved in infrastructure. If you take a look at the most significant risks that this country or any country faces as it relates to terrorism, it is that there could be a nuclear experience, a dirty bomb with porous borders and ports that are not necessarily modernized to the extent they need to be. Infrastructure plays a significant role in ensuring that we are a safe and secure people.

The issue of competitiveness has also been identified and discussed which give me just a sense of this. As you look at just one country that is in the process of modernizing its infrastructure, China is an interesting country to look at. They will this year construct 52,700 miles of new roads. They will put on line 66 gigabytes -- gigawatts, rather -- gigawatts of electricity capacity. To give you a sense of how much power that is, that's more than the entire United Kingdom uses in a year. That's added to their grid every year.

They are going to build 7.5 billion square feet of new commercial and residential property which is the equivalent of every mall and strip mall in the United States of America, and they're doing that every year.

So as we look at competitiveness, we have to recognize and appreciate that these developing countries are leapfrogging the old technologies, the old infrastructure that we have invested substantial sums of money in over the last several decades; they're leapfrogging it to use the most recent technology.

During my trips to India and China, I was struck by the fact that I didn't see telephone wires. Well, there's a reason for that: They don't need telephone wires because they are countries that are focused on cell capacity.

So in addition to the competitiveness of this, there is also the issue of good and better-paying jobs associated with investments and infrastructure. I can tell you from my own experiences, the governor of the state of Iowa, a state that had historically lagged behind the country in terms of per capita income and income growth, we began an aggressive effort in focusing on infrastructure investment, in building new recreational and cultural opportunities, in improving our power systems, in embracing renewable energy and fuel, in focusing on a more appropriate transportation. And what we saw as a result of those investments was a significant leveraging of those dollars by the public and private sector resulting in better-paying jobs, more jobs, higher incomes per island so that in the last five years the State of Iowa has outpaced the rest of the nation in terms of income growth, both family and per capita income.

There is also an attitude when you see something being built, there is a confidence-builder. People have a greater sense that the future is bright if they see people at work building infrastructure of any kind. I can tell you that the confidence-measure in my state compared to the confidence-measure of the nation is exactly the reverse. The most recent statistics I have seen is that 70 percent of us nationally think that our national government is headed in the wrong direction.

In Iowa 70 percent of the people think the state government is headed in the right direction.

So there are ample reasons why we ought to be focused on infrastructure, but to do this is going to require a significant change of how we do business in this city and in this nation's capital. It really starts with the budgeting process. And I want to be very specific about this: You cannot have a budgeting process where every congressional appropriator has their own little opportunity to discuss infrastructure within their specific aspect of the budget. It is important and necessary for this national government to take a look, specifically, at what successful states have done in terms of infrastructure.

The first thing that must be required in my view is that this national government must do a better job of establishing and evaluating risk. We do a very poor job at the national level of establishing and prioritizing issues of risk, and you can't do that unless you have a budgeting process that is tied to specific results. In other words, can you say today for any dollar that is being appropriated by Congress what the specific result will be to the citizens of this country? Is there a specific tie-in so that you can articulate what the result is?

We can do that in the state of Iowa. We established a leadership agenda, five or six major items, and then every single dollar that was appropriated at the state level was tied into, in one form or another, a quantifiable result that would in turn tie into one of those larger results that we sought. It is important and necessary in my view that we do a better job of risk analysis so that we know precisely what unreasonable risks we face today with reference to infrastructure, and then we create a budgeting system that requires us to articulate specifically what every dollar we're investing is going to buy for us.

It isn't just a return on investment -- if you invest a dollar you're going to get six bucks back -- it's precisely what is going to happen with that dollar that's going to affect our lives. If you had such a system in place, it would then be easy to make the case with reference to infrastructure that it should be segregated out of the general appropriations process. It should not be part of every appropriations bill; it should be its own separate account, its own separate budget. It should be separated from the operating budget of government. There ought to be a capital budget for the United States.

And there ought to be an inventory made of all of the federal assets that exist today and the condition of those assets so that we can begin to prioritize what steps must be taken in terms of major maintenance. And, as part of this, there needs to be an integration of whatever our infrastructure policy is. There needs to be an integration into whatever our national economic development policy is.

If you went to any state governor today, that governor would be able to tell you precisely what the economic development strategy is of their respective states. I can tell you that our strategy is focused on renewable energy and fuel. I can tell you that we are focused on expanding financial services and insurance and that we believe that there is still significant opportunity in advanced manufacturing. And everything we do in Iowa, every dollar we've spent on economic development and infrastructure is tied into one or more of those three areas.

I daresay that we can't say that nationally. What is the economic development, philosophy, or direction of this country? What is it that America is trying to be the best at? If you're going to have an infrastructure program, you need to have it tied into a more integrated national economic policy in my view.

You also, I think, need to understand that, if you have a separate capital account budget that is tied into a national economic development policy which is evaluating risk and prioritizing risks and investing resources where the risks are greatest, you also have to have a funding mechanism that allows you to do that.

Most states have a dedicated resource that is directed to infrastructure so that there is some degree of predictability in terms of long-term how much money will be available from year to year. It's a little disconcerting when capital projects that might have a life expectancy of 30 or 40 years are somewhat dependent upon how much money someone decides to spend from year to year. If you look at what states are doing with dedicated sources of money, you have a pretty good idea that every year X-number of dollars is going to be available.

In Iowa's case, we take excess gaming revenues from the gaming activities that we have in our state, and we put them into an infrastructure fund. And we know, historically, that we'll have somewhere between $250-and- $300 million. We can count on these resources every year, and we can develop a long-range plan for dealing with the infrastructure needs of our state.

This is in addition to transportation dollars where you obviously have gas taxes and dedicated use tax resources. So I think it's important for us as we look at infrastructure to have dedicated funding sources so there is some degree of predictability, and I think we should look at innovative and creative ways to create and leverage those resources.

One of the challenges of infrastructure is to engage the people in this, and I would suggest to you that as you're looking at financing mechanisms, looking at long-term debt opportunities, creating some kind of mechanism where young people, particularly the children of this country, can actually see themselves investing in their future.

I know when I was a kid, my mother would take me up to the local bank hand-in-hand, and I would be saving a certain percentage of my allowance, and then when I got to a point where I could go buy a savings bond, I would go up to the bank, and I'd go buy the savings bond, and I'd hold the bond. Then my mother would take it, and she'd put it in the lock box, and it was a ritual of savings. I felt that I was investing in my country.

There ought to be some process and mechanism to empower ordinary people in this country to invest in the infrastructure that will allow for a brighter and more competitive future for themselves and their children, and we ought to engage youngsters in that. It would have the added benefit in my view of getting back into the national consciousness the necessity of savings, which obviously we need to do.

Another step that needs to be taken, in my view, if we're serious about infrastructure, is that the federal government needs to work in concert with the state government and local governments to provide for regulatory stability and clarity. When I was governor, I noticed that we had not had a new power plant built in our state for 20 years. I thought that was unusual since we were not importing power into our state to fuel our homes and our factories and our farms. I asked the utility industry, why is it that you haven't built a new power plant in our state?

They said, well, there's regulatory inconsistency.

And I said, well, what do you mean?

Well, we'll make a capital expenditure and a commitment of what could be a billion dollars. We'll have a rate structure that's designed to repay us for that capital expenditure over the life of the asset, and then if we have a particularly good year in the middle of this process, the regulatory folks will come back and say, "You're overcharging consumers, and therefore we're going to substantially reduce what you have the ability to collect, which makes it very difficult for us to lay a billion dollars on the line to build a plant. And so we just haven't. It's much easier, much more predictable for us to go outside of Iowa and purchase the power."

Well, we changed that, and we established a regulatory system that essentially assured the utility companies that they would in fact get a return of their capital investment over a reasonable period of time, and we worked with them in such a way that we guaranteed that return, that there would be no changes. The result? Six new power plants build in our state, billions of dollars of economic activity, and a freezing of electric rates by one of the largest companies in our state for a decade.

I think it is important and necessary as you deal with the variety of interactions between state and local and federal government, that there be an effort to assist states in identifying best practices in terms of regulatory stability and clarify which I think in turn will encourage and result as a lever for additional private investment.

The same thing was true with wind energy. Our state is now the third leading producer of wind in the country. We rank only behind California and Texas. And the reason was that we looked at our taxing structure and our regulatory structure, and we worked with the industry in an effort to try to determine now we could assure them a significant return without mandating anything, giving them a challenge and working with them. I think the federal government needs to do the same, and I think the federal government needs to work with states to develop regional cooperation, specifically in the issue of transmission lines.

You know, we can produce all the wind power in the world in Iowa, but if we can't get it to the states that need it, it won't do them or us much good. And states have been working together. The western governors have worked together on a series of protocols, midwestern governors have worked on a series of protocols; but the national government can encourage this kind of regional approach to creating stability and predictability in regulatory structures so that it's easier to create transmission lines for power that this country will need.

There's going to be a tremendous need for power in this country and a tremendous competition across the world for sources of power. And it's going to be necessary for us to have a consistent, stable approach.

So if we do all of this, it seems to me that what we will end up doing is we'll end up having a budget system in which risk is analyzed properly; a budget system that allows us to prioritize what is most important, and to identify the results that those investments will create for real people; a budget system that will allow us to segregate infrastructure and capital expenditures that would in turn allow us to develop creative financing mechanisms to engage the people of the United States in all of this; that would allow us in turn to use new debt opportunities, leveraging the financing opportunities.

It would allow us to engage young people in their future; it would build confidence, it would create better jobs, it would make us more competitive. It would relieve the anxiety that many Americans feel about the future. It would make us safer, more secure, and it would provide more time because we wouldn't be spending as much time getting to and from places as we are today. You know, when you look at this issue, you wonder why more people aren't talking about it.

So I see that the person is there with the microphone, which tells me I'm supposed to stop. There you have it.

(Applause)

Question? Questions?

SPEAKER: Hi, thank you, Governor. You talked about taking the appropriations process out of the whole transportation spending thing, so do you know of anybody in Congress that is thinking along those lines?

GOVERNOR VILSACK: I know one senator that I had a conversation with yesterday, she's junior senator from New York, who recognizes and appreciates the necessity of having an infrastructure plan for this country and appreciates the political difficulties of asking a chairperson of a committee to give up some responsibility.

But here's the point. The point is this is a national need. This is something that transcends the necessity of you being able to prove to your constituency that you can bring money back into the district. There needs to be a growing awareness in this country that we face competitive challenges that are not going to distinguish congressional districts, and it is important and necessary for our leaders in Congress and our leaders in the White House to reflect a national agenda, not a localized and parochial agenda.

And someone in this town has to have the courage to say we need to do things a bit differently if we're going to be competitive. China is building 52,000 miles of new roads. They're adding more power than the United Kingdom uses in a single year. That's just one country. The same thing is going to be replicated in India because in a few years they're going to have the youngest work force in the world, they'll overtake China, and their process will begin to emerge.

And then, by then the African countries will begin to -- I mean, the challenges are enormous, and there is only one way the United States maintains its quality of life, and that is for us to have a national commitment to competitiveness that involves doing different things differently in the budget process and infrastructure, education, health care, energy, a whole series of things.

We can't afford to build bridges in congressional districts that don't really benefit anybody, so there needs to be leadership. And, frankly, there are people in here who are opinion leaders and it's your job, my job, our job to go out and convince Congress that this is more important than the capacity to come home and cut a ribbon on a bridge that doesn't necessarily fit into an overall national strategy to make this country more competitive.

SPEAKER: Hi. How do you deal with conservatives in Iowa? I mean, everything you've said sort of warms the cockles of my liberal heart, but, you know, here in Washington economic policy has been dominated by people who believe that, you know, free markets rarely fail and, if they do, you should be very skimpy in how you address that. How do you deal with the conservatives to get them to go along with what essentially sounds like a certain degree of economic planning?

GOVERNOR VILSACK: Well, first of all, conservatives ought to love the idea of accountability and responsibility of having a budget system that enables me to say to you the reason we're investing a dollar-X in this program is because we anticipate and expect this is the result from that investment. And if we don't get that result, then it will be much easier for you next year to come in and say that's money that shouldn't be spent; it should be redirected. That's the first thing.

Secondly, I would think that conservatives would appreciate the necessity of having some degree of regulatory stability and clarity. When you talk to business leaders, it's almost to the point where they say, "We really don't care as much about what the regulation is so long as we know what it is and that it's not going to change; that we can do our planning accordingly." So the regulatory stability is a key issue.

I would think that they would appreciate a logical and rational approach to risk in this country. Here's the problem with risk in American government today: It is reactive. We react to risk after it happens. You know, the levees break, you know, and it's, oh, well, we've got to do something about that. The bridge fall down, oh, we got to do something about that. Why aren't we being proactive? Why aren't we doing an inventory and identifying for the American public precisely where the significant risks are? And then compelling our policymakers to prioritize those risks and telling the American public, here's what we think the most important things are to do. And if you agree with it, great; if you disagree with it, get involved in the political process.

That's not happening, and as a result people feel disconnected. They don't feel trust in their government because they don't know. So, you know, it's better use of resources, it's wiser use of resources, it's connecting people and encouraging people in this country to see the long view. And to the extent that you can develop financing mechanisms that encourage even the smallest investor, the youngest of children, to be involved to save, I can't imagine the conservatives wouldn't think that's not a bad idea.

So, you know, this -- the great thing about infrastructure is it's really not, in my view, a conservative or progressive idea, it's -- it's about better-paying jobs, it's about more time. I mean, how many -- we try to recruit former Iowans back to Iowa. Now that's kind of difficult, for example, when I go to Phoenix in January and try to convince somebody to come back to Iowa, because it's like minus-10 in Iowa and, you know, it's 75 in Phoenix. But we have this video that shows rush- hour in Iowa. We don't have rush-hour, we have rush-minutes. It's a 15-minute commute anywhere in the state. Fifteen minutes.

Now, when you live in this city or you live in a city where you got to take an hour or two hours to get to work, we're out playing ball with our kids, we're going to church services, we're reading a book, we're taking a walk. We're doing things we want to do. Time. Time.

You know, there are so many ways that you could sell this to the entire political structure, but it's going to require some courage and an appreciation that if we do not do this, we are really jeopardizing the security and the safety, and the economic viability of this country.

SPEAKER: Thank you, Governor. As I'm looking ahead and looking at national security, homeland defense, Social Security, Medicare, everybody else's health care, the education investments we need to make to be competitive and advance to the higher technological levels in this country, it seems to us that first of all your message about prioritization to efficiency is really important, but what we also have to focus on are demand reduction on both the energy side and the transportation side.

And with us, with the U.S. using something like 25 percent of the world's oil, 45 percent of the emissions coming from our cars, our inefficient development pattern's our big problem here. It's going to be both green buildings and location efficiency of our investment, so, hopefully, you conclude in this it's not just the prioritization of the investments but it's prioritization based upon demand reduction and location efficiency.

GOVERNOR VILSACK: Well, there's no question that there are many factors on how you prioritize, and that would be a whole different speech in terms of how you would prioritize. I just -- sort of laying the framework here, it would be up to you folks here, it would be up to you folks to determine from the panels and so forth how you prioritize. Clearly, that needs to be a priority.

But, you know, it's very difficult to ask an ordinary citizen to change their patterns and to make sacrifice when they don't see it happening in their nation's capital. When they don't see their leadership doing it, it's very hard, very difficult. But if you create a system where you have a clear understanding of what the national economic policy is, you know, whatever, however you would articulate that -- are we going to be -- you know, are we going to decide we're going to continue to be the most innovative place on earth? Are we going to decide to be the cleanest country on earth? Are we going to decide to resurrect manufacturing in a meaningful -- I don't care what it is, but I'd just like to know what it is.

And then I'd like all of us to be tied into it in some way, to be able to see and to understand precisely how we, as citizens, can make a difference to advance that policy. It may be buying a bond that helps finance infrastructure over the long haul. It may be altering our consumption patterns to contribute to less energy use, to reduce carbon footprint for us personally. It may be articulating the need for us at work to encourage our principals at work to do the same. But until people "out there" see this kind of activity here happening, it's going to be very difficult.

It's going to be very difficult, and I think that's why this particular panel in this morning and this afternoon are so important, because you can help create the framework that encourages folks up on Capital Hill to change the way of doing business. They must change the way they do business. They've got to give power up to get power. Trust me, if they give it up and they develop a separate capital budget, there'll still be plenty of opportunities to cut the ribbons, but it will be part of the overall strategy that people will understand and appreciate and be willing to buy into.

And, you know, at the end of the day, it'll make us safer, more secure, better-paying jobs, more convenience, less time spent traveling here, there, and everywhere, and we will be a happier nation. And when we're a happier nation, you know, incumbents have a tendency to get reelected. So it's good politics.

Thank you.

(Applause)

MR. KATZ: I think there's a lot of people in this room that wish Governor Vilsack had not gotten out of the race for the '08 presidential, so thank you very much.

GOVERNOR VILSACK: (Inaudible)

MR. KATZ: Absolutely. He's about to go give a speech on health care, so we've got the two major issues that probably should define the '08 election.

We are now going to bring up the first panel, so I think Doug is here, Richard, Mary Sue, Martin.

I think everyone had the opportunity to pick up bios from the front table, so I'm not going to go into great length here about who these people are. We'll start with Mary Sue. Mary Sue, again, is the head of the Metropolitan Planning Council in the Chicago metropolis, and that's really one of the oldest regional civic alliances in the United States and clearly one of the most effective.

Doug Holtz-Eakin is now with Peterson.

MR. HOLTZ-EAKIN: Yes.

MR. KATZ: So he made the long trek from across the street from the Peterson Institute, was the former head, as many know, of the Congressional Budget office.

Martin Baily was the Clinton administration final year's head of the Council of Economic Advisors.

Richard Baron, as I discussed before, is really the premier of affordable housing developer in the United States, mixed income housing. But for purposes of this conversation has been a leader in the Urban Land Institute on Urban Infrastructure.

So I just wanted to start. I think we're going to have a series of issues discussed both among the panel and with people in the audience. It seems that the governor raised a series of issues that I think really help frame the conversation. A) I think he made a fairly -- a good case for the national goals and objectives that a sound, smart, focused, purposeful infrastructure policy can achieve, whether it's safety, whether it's energy independence, whether it's competitiveness, or whether it's quality of life for our citizens.

I think he made a case of -- probably a better case, to be frank, than other people in the election so far have made about how unfocused national policy is today with regard both the competitiveness writ large, but also to infrastructure policy and how it's really spread out among multiple appropriations subcommittees no defining sort of vision, no capital budget, really, to sort of drive the process.

And then I thought he made a case for just this lack of prioritization, lack of sort of a process within the national system of assessing risk but also from across a broad swath of infrastructure, really deciding, what's the most important thing for the federal government to invest into and engage in?

So I want to start with the first piece. I want to get a sense, because we have got folks from a national perspective here and from a city and metropolitan perspective. When you think about this issue of infrastructure, which our think tank will get more and more attention as the election plays out, what -- how do you think about the challenges that face the country and the kind of national goals and priorities that can be served by a smart and sensible infrastructure policy?

I mean, if infrastructure is a means to an end, what's the end here? Because until we sort of define that, it's hard to even enter the conversation about budgeting of prioritization. How do you define the infrastructure challenge?

And then teeing off with my thought with a fairly good framing that the governor did, anyone want to start?

MR. BAILY: Let's go down the (inaudible).

MR. KATZ: Martin has kindly pointed to Mary Sue.

MS. BARRETT: To get it started, I think the terms and the phrases have already been tossed out in the room. It's about a measurement of an outcome that is -- make this country and its regions, cities, suburbs more competitive, more livable, more mobile, and providing people with choices, with options. That's again a nonpartisan concept I think we can all get behind, unleashing the power of markets.

I think the governor talked about an infrastructure investment strategy alliance with an economic development strategy. I don't now how much of that can be choreographed on a federal level, but that's where encouragements, incentives to states and metros come into play. So that if we all have to figure out what that unleashing the competitiveness and the livability is, it might be more about green building technologies in some place or renewable energy in other place.

MR. KATZ: Umm-hmm.

MS. BARRETT: But there's this compact, I think, that can develop. It's not there now but can develop between the federal government and metropolitan regions. But we ought to be measuring that always with the megaconcept in mind of competitiveness, and livability, and mobility.

MR. KATZ: Others in terms of --

SPEAKER: Well, I think the preeminent issue is to have a transportation system that supports our global competitiveness. And in looking at that, one of the things that jumps out is the difficulty of thinking coherently about the interconnections between ports, rail, highway, and the various different modes of transportation that are used.

If you layer on top of that a second challenged that is not a transportation challenge, per se, but where transportation figures heavily and that's climate change, you have to decide as a national strategy what tools would you put in place to deal directly with climate issues, energy security issues and, what tools will you use to enhance the existing infrastructure? I mean, the broad evidence is that in mature economies, despite the attraction fancy new things the politicians may see, it's using the existing networks more efficiently. That's where the big gains can be had. We need to focus on those things, using the networks we have, interconnecting them effectively, and deciding which part the transportation sector will play in the climate change challenge.

SPEAKER: Let me make two points: We clearly have a bigger budget issue than just infrastructure. Health care is going to eat us alive. At some point I think we're going to have to start raising taxes. I know that's the least popular thing around here, but I don't see how to escape that. And I think that's going to be part of the overall budget decision to free up resources to do whatever we need to do to make this economy more competitive and to pay for the heath care reform

The specific infrastructure challenge that I would like to focus on is around the labor market. One of the advantages the U.S. economy has is that it has a much more flexible labor market than many other countries, notably than Europe or Japan. And I often count the benefits of the U.S. labor market in this respect and point to the need for greater flexibility in other countries.

However, if that flexibility is going to work to make us more competitive, that means people have to change jobs and be willing to change jobs. And in order to change jobs, that means they have to get to work. And I think one of the clear infrastructure challenges is that it's gotten harder to get to work, it takes longer to get to work, and people who don't have a lot of skill often find that the cost of getting to work maybe takes a pretty big bite out of whatever they make when they get there at the other end.

So by whatever means we're going to finance it, whether it's taxes, or whether there's infrastructure that we can finance or use more effectively -- and I agree with Doug completely on the use-what-we-got-more-effectively -- I'm in favor of congestion [sic], the pricing and things like that, and using, you know, tolls where we need to build bridges and that kind of stuff to get the financing directly.

But to the extent that we want to improve the net worth and do it through direct spending, government spending, I think we should focus on making sure people can get to work and that everybody can get to work, because that's the basis of our competitiveness and equal opportunity.

MR. KATZ: Richard (inaudible)?

MR. BARON: Well, I would just change the focus a bit to talk more specifically about local community and the enormous problem that those of us that work in urban areas confront every day in terms of trying to provide housing for people who are in the bottom third of the country -- work force, people who are supporting economic development that goes on in center cities that have seen some renewal.

And the problem is infrastructure. It comes back over and over again. Cities that are 100 years old have antiquated utility systems, water and sewer separation requirements that are being made by Washington, once again unfunded mandates, problems of building new schools, simply trying to find a way to finance the infrastructure to support new housing and new development in these communities.

They have responded by creating tax increment financing and other kinds of vehicles that really capture the wealth that's being created in these communities, by higher-income individuals who are buying or new businesses that are relocating, or office buildings that are being developed, but fundamentally the ability to finance the work force has been removed. The block grant program which has been around for many decades now has been increasingly cut, and local communities really have no resource. And this has shut down all kinds of redevelopment in cities: no means of recapturing vacant land, industrial properties that are empty and defunct.

We're working down in New Orleans now, and the single biggest challenge in New Orleans is there's no money for infrastructure. With all the talk about the rebuilding, other than the money that's gone into rebuilding the levees -- and nobody's sure of what that really means -- beyond that trying to go back into the neighborhoods of New Orleans and rebuild them, there's no money for the utilities. It's just that simple, very meager amounts of money to support what's being done. The schools are being discussed over one side of the town, and the infrastructure is, if it's being discussed at all, there's just very little money.

And so the reality of it is that, as we move around the country and work in 40 or 50 different cities, it's the same challenge everywhere you go. And it's reached such a crisis proportion now that apart from competitiveness and all these other issues that are all very important, just on a local level it's become more and more difficult to do anything. And to the extent that there are resources available in terms of the low-income housing tax credit or other vehicles to help finance affordable and work force housing, the supporting infrastructure to do it is just not there, and local cities really don't have the wherewithal to do it at all

MR. KATZ: I want to drill down, because when I listen to this sort of initial discussion, we're putting an enormous amount on the table in terms of different kinds of infrastructure for different purposes, perhaps all of which, you know, are valid and legitimate.

The starting point in this town is very -- it's segmented, a sort of fragment of that set of programs and statutory authorization, you know, probably the most, sort of the biggest thing that we focus on, and the Service Transportation Act, and it's combining up highway and transit, and we reauthorize it every five years. But then we have a series of other congressional committees, congressional subcommittees, federal cabinet agencies that focus on different elements of infrastructure.

So the question at some point does come back to almost a basic issue of federal, you know. I mean, given the challenges we face as a nation -- economic, we talked about climate, we talked about social, labor market issues -- are there a series of infrastructure elements, you know, part of the infrastructure puzzle that really have to be, that belong up at the national level, obviously in a shared relationship with state and local governments and the private sector?

And are there others that really the federal government shouldn't get involved in, because we're beginning to see a range of proposals come before us where a whole bunch of things that normally would not be considered to be national responsibility -- school construction, for example -- are being put on the table as something that the national government now has to address?

So do you have in your own mind, very much along the lines of what the governor was talking about, do you have in your own minds almost a prioritization of, what are those elements of infrastructure that have to be addressed at the national level for us as a country to do X, Y, and Z? And where are there other elements that perhaps we either delegate down or we have some different kind of partnership: feds in for less, states and locals in for me? Is there that kind of tiering that we can begin to sort of sort through? Any thoughts about that?

MR. HOLTZ-EAKIN: There is, you know, a large and well-established body of research that has to think about the correct allocation of responsibilities. It's exceedingly dry, and I want to encourage you not to read it.

MR. KATZ: There'll be a test.

SPEAKER: The upshot of it is pretty simple, which is, you know, if you got benefits from the infrastructure that are limited to a metropolitan area, the metropolitan ought to figure it out. If there are benefits to the infrastructure that extend in some sort of cross-state fashion, you're going to need a regional authority to correctly get the cost and benefits lined up. There's some things which are generally national or even supernational, which is, obviously, the climate change question.

So there is a way to think about this question, and, you know, it's sensible to do so. Once you've got a set of national, you know, objectives that you'd like, I'd think it would be easy to rail against the way we're doing business right now. You know, let me join the basis railing against what's going on. I mean we do have things like the Waterless Resources Development Act, $23 billion. Every dollar is earmarked.

So, you know, is that really the way we want to do business? And I don't view that as an infrastructure problem, that's a governance problem, and we do have to again be able to have a representative government that identifies national priorities, does them, and recognizes that it doesn't mean that everybody gets their handout. That's imperative, I think, in this area especially where there are some hard challenges.

MR. KATZ: Mary Sue?

MS. BARRETT: There may be a lot of literature on this, but, Doug, I think we have to translate --

MR. HOLTZ-EAKIN: I told you not to read it.

MS. BARRETT: -- to the public discussion that has been missing. I don't think it's as clear cut as you suggest, that there probably isn't an easy consensus about where that dividing line between national benefits, macro regional benefit, and local benefits.

I brought a map with me of freight rail volumes, and I'll leave some copies in the back when I'm done, but Chicago is the epicenter because it's the only place in the country where all six Class 1 railroads connect. Now, when Chicago gets a cold, you know, the rest of the country is affected and infected. So it is nationally significant, but what have we done with that particular mode? We've said, well, that's a private sector strategy.

Up until this last T-bill where for the first time there were some new public dollars invested, small in freight rail infrastructure upgrades, that mode freight volume is projected to grow 60 percent between now and 2020. So right now it's largely kickbacks to metropolitan Chicago and Illinois to come up with the majority of that funding.

I don't think it's as simple as -- I think many things need to happen at once. There does need to be a pickup on the idea from the governor of a national capital plan and a conversation about what those priorities are, and a way that we prioritize, select, and evaluate those. But I think that has to be mirrored by a similar process at the state and regional level where the federal government shouldn't micromanage that process but should require that states go through a similar process.

And it's not just the giving up of federal, state, and regional; it's also the emerging private capital market contribution to these strategies. So I don't think we have clarity about who's responsible for school facilities, water/sewer technology, utilities, et cetera. And I'm not sure that there will ever be a clearly defining line, but there's so much more that we can do with federal government priming the pump and providing incentives so that we bubble up the conversation with this happening too micro of a level to say these are nationally significant. Modal investments, and airports, and freight rail, and other infrastructure, that if we improve that, it's going to have a ripple effect for the economy.

MR. KATZ: I mean, we're real- -- it's like we're having a civics class in here, you know. I mean, it's really -- it's really a fascinating piece in the sense of how much pork and log rolling has basically infiltrated this area of domestic policy, because it hasn't really infiltrated a broad portion of other areas of domestic policy.

I mean, when you talk about committees that basically do several things, you know, take the Senate Banking Committee. They oversee transit at the same time they oversee housing. We're not earmarking housing projects in the United States in the congressional dialogue, but we are earmarking in a very precise and deliberate fashion how much will X-metro get around rail or transit modernization as opposed to something else.

So something has happened in this area of domestic policy that hasn't happened in other areas of domestic policy. And it's, you know, it's a very interesting question of show we should move toward this more rational sort of predictive objective and independent kind of thinking about things.

Here's a question: I mean, how do we being t o do that? I mean because we are -- well, this is very much about projecting out a national vision but also moving from a series of bad habits. So what -- I mean the governor started to lay out some of these questions about what -- he was talking about this question about conservative versus progressive -- but what is in it for commerce to basically move in this direction that we're sort of describing here? More purposeful, more deliberate, more clearly about relationship to national priority. Can we begin to make a case?

SPEAKER: If you can get an approval rating, about 14 percent.

MR. KATZ: That would be the starting --

SPEAKER: I think, you know, competitiveness is a tough word. A lot of economists don't like it, but it does have a virtue. I mean, there has been some thing in the papers about what happened when Sputnik went up. And some people were saying, well, we really got the wrong message for Sputnik.

But it probably was not a bad idea that we put more emphasis on math and science education, and we make sure that the United States has the right priorities. Whether we got the right priority of space, I'm not going to say. But that kind of competition can be helpful. And I think, you know, we do have, you know, a democracy that's not a perfect democracy. I don't think we can just beat our heads against the wall and say, well, you know, if we had a perfect democracy, things would be different.

Well, we don't. But I do think that Congress is getting the message that we are facing a more competitive world environment and that some of these things are a big priority, and it's time to start making rational decisions around them.

And I -- you know, Doug made a joke about the literature. I would say, yes, this audience doesn't want to read it, but I think it is a helpful which I'm sure in saying that let's look at what things should be the province of a national policy. What things are interstate highway system where it's considered to be, probably correctly, a national priority; other things can be done at the local level.

And then another way of dividing things up is, which things can be done through private markets and privatization? And then you can get -- there was a question to the governor about how do you get the conservatives on board. I think there are a lot of places where we can improve the infrastructure through better use of private markets.

And then, finally, there are some where we really need direct government investment. So let's try to set up those decisions now. We're not going to get a perfect outcome, but I do think the pressure on jobs, on competitiveness, is going to drive Congress to take some action in this area.

MR. KATZ: Richard?

MR. BARON: I just want to make a particular point, derivative of my CEO days, I guess, about this notion of conservatives and using markets. There's a false conservatism that goes on out there, and that says, Hey, we're going to have this really good idea, and we're going to have, you know, run it through the federal government, but we're going to use private markets to finance it. And we'll just shave loan guarantees and use that instead of spending the taxpayers' money.

No. All you're doing is saying, We're doing to let somebody make somebody, let somebody make some money in the private sector and guarantee that the taxpayer's on the hook. Well, if you're going to do this, let's be honest about it and either leave it in the private sector -- I think Martin is right, there's a lot the private sector can and should do in pricing and paying for things. Period. No government. For people in the government sector, put it on the books, raise the taxes, borrow the money, no gains. And there's a really, really very destructive use of false private sector activity that I think has to be stopped.

Bruce, I'm sorry, I'll pick it up.

MR. KATZ: Why don't we move directly from that into sort of the budgeting question? And then I, before we open up for questions I have some issues about -- I want to put forward -- about how the federal government deals openly with space and metro.

But on the capital budget, is there agreement here that we need to move in that direction? And, if so, again, are there lessons to learn from prior efforts to put this on the table that we might take forward?

I mean, are we at a place where the urgent nature of the challenge is competitiveness or climate change, or something else really pushes us to make these kinds of budgeting changes?

MS. BARRETT: I think it's the twin pressures of politics. There is a backlash to the pork label, the earmarking, you know, the explosion of the earmarks. The percentage growths is really stunning, and that has occurred both in a congressional context but also in states' general assemblies and legislatures where you have to take a realistic approach to it and say -- you know, people still need to be able to come home to their districts and say, I accomplished something.

But if we can give them a framework about their local piece of it fitting into a national agenda, and then this multimodal approach where, you know -- when I mentioned freight rail, I wasn't making a case for investment only in freight rail but to look at how modernizing and increasing the capacity of freight rails can divert some trucks off of the highways which can improve -- which can extend the capacity of that and can, you know, create opportunities for maybe transitory development around some former industrial sites.

I mean, it's the community development, economic revitalization framework that I think is missing. So if we take an approach of coming up with criteria that captures all of those little economic hard benefits as well as the community livability benefits, which I think are really important to people, about expanding choices: for instance, on good schools and quality housing, and travel options.

That's not telling people how or where to live, but it's giving people choices. And that, I think again, cuts across political lines, then perhaps we can come up with a system where we've got some growing consensus on here the, you know, economic security, national security type of priorities that we must invest in: Here's your little piece of it, here's how it's going to trickle down to your community so you can talk about it. But then translate it for people's lives in terms of how they live every day.

Being stuck at that -- you know, there's 3,000 at-grade crossings in Chicago every day, and there are communities where their major commercial strip -- commercial corridors are blocked by idling freight trains for six hours every day. How can you have an economic revitalization strategy for a South Suburban Chicago community until you grade-separate that crossing?

So the practical benefit then translated to a national scale, I do think that we can recognize what drives the pork -- transportation -- but also connects people's interest in improving their local communities with something that's bigger. I think there's a thirst for people being part of something bigger, and that's what we need to create an environment for our leaders to lead.

SPEAKER: Bruce, I think, too, that there's a very real challenge in the way that the country does business and people think about capital projects and the corollary of operating reserves for those capital items that have never been a part of the budgetary projects.

MR. KATZ: Umm-hmm.

MR. BAILY: It is a fundamental challenge for anybody that's involved in doing capital projects, whether it's building a hospital and putting a plaque on the surgery center because some benefactor wants to do that, go back to that benefactor 10 years from now and ask them whether they'll put up the money to operate and upgrade that operating room. They're long gone.

We do not -- obsolescence is just the way that this country has tried to do business for so many generations that separating the capital budgeting process is something I think has to happen, because, fundamentally, nobody wants to raise taxes to preserve those assets. That's the box we're in across the country.

Nobody wants to raise taxes to build new schools; nobody wants to raise taxes to fix schools; nobody wants to raise taxes to do anything anymore.

And so we are caught in this process where it's easier to go to the public to build the new interchange, to fix the bridge in Minneapolis after it collapsed, the deal with the levees in New Orleans, but we have such a broken system now in terms of the ongoing maintenance of what we've created that I suspect that politicians now begin to understand that they are so boxed in terms of how these assets that we've created are going to be preserved over time that unless we separate the capital budgeting process and build into that a way of maintaining those assets, we will never get out of this situation that we're in today in the country.

I mean it is -- everything is failing everywhere because we've just not reinvested, because nobody wanted to raise the taxes to do that, and we didn't build in the mechanism on the front end when we financed those assets, whether they were publicly financed or privately, to preserve them over time. So bridges fall down, highways deteriorate, schools deteriorate. Nobody locally wants to raise taxes, and so we're in a box in the nation.

Every city, you've gone through this. Every state is going through this, and unless you have a booming economy where you can capture gaming revenues to do that, we just don't have a mechanism today -- conservative, moderate, progressive -- nobody wants to do anything about anything. And so I think the country is really shut down. It really is, and in a very real way, culturally.

MR. KATZ: Martin is the two -- well, I'm not going to call Martin a budgeteer --

MR. BAILY: No, I'm not a budgeteer

MR. KATZ: -- but I think -- how do you respond to this?

SPEAKER: Well, I think in principle, if you make a capital investment you can amortize that over time, and that's certainly what businesses would do, and it makes sense for government to do that as well. But I don't think, if you have a major capital project, there's a case for you don't have to pay for the entire thing up front. That, I think, makes sense.

The difficulty is sort of in line with what you just said: Nobody wants to raise taxes to do anything, so that once you kind of open that Pandora's Box, then people are going to say, Well, this project, you know, that's going to give benefits 10 years down the road; that project's going to give benefits 10 years down the road, and so we don't finance anything that we're doing.

That's what I said, and I'm not running for election, fortunately. Eventually, we're going to have to raise taxes to pay for something, and -- because we don't have -- we have a mismatch between what Americans want to spend in terms of their needs and what they want to pay in taxes. So we've got to get those more in line.

So I agree in principle that capital budgeting's a good idea. I want to make that a way in which we evade responsibility for funding the things that we need to fund.

SPEAKER: I want to make two points, and the first is the budget-want points. So take a sip of your coffee and hang on. But at the federal level we, in fact, have a form of capital budgeting because when the Congress decides to spend money on something, Step 1 is it creates budget authority. That's sensing [sic] money into a checking account for the full amount of whatever it's going to do. If it's a capital project, it's budgeted up front, and then the money goes out of the checking account. We call that outlay. That's the expenditures you see.

So, basically, they have to make the decision to commit the projects, and then you're committing a big lump up front for something like a capital item versus a small thing that looks like an operating item. They may not be on a level playing field, but they're tilted the way opposite most people think. So that's important to recognize.

A big problem is explaining the benefits of things. The budgeting's all about the cost, so if the big benefits are in operation maintenance, very low grammar things, we have to make that case to the policymakers. And we've seen over the past 20 years a switch from a dominance of capital outlays to much more on operation and maintenance in federal budget, so that's good.

MS. BARRETT: Umm-hmm.

SPEAKER: I then want to concur with Martin that going to a capital budget, per se, I think would open up more problems than it would solve. And I am -- I was convinced of this at a very early age when I still had hair by a former mayor of Newark, New Jersey, who explained that he used the capital budget to manage his elections. Right before every election, he would plan to fix all the sewers. And, of course, all the sewers never break, so there'd be a lot of money in the budget to do things with, and then after that, he'd stop planning to fix the sewers. So he just gained the capital budget to keep the money around to run for reelection. I don't think we want one more way for Congress or other politicians to misbehave.

MR. KATZ: I don't want to open this up, but I think there's an interesting piece to explore -- and we could do it here, we could also do it in the next panel -- and it comes from something Mary Sue said, and it comes from a lot of the differences in how the Europeans, in particular, deal with infrastructure is that when you see the world, you know, as Richard does I think and Mary Sue does, from the cities and the metros on up, what you see is a particular challenge.

Let's say it could be Marty's challenge, special mismatch, you know, between workers and jobs, it could be congestion, it could be, you know, the sort of the freight blocking and so forth. And the answer is not necessarily a sort of modally-specific answer. So, you know, the question is whether the federal government can get to a place -- and we were sort of walking logically and literally to sort of national priorities, where infrastructure fits, you know, this federalism question of what really belongs up here and what can be delegated. There's a linear, logical progression here.

But the place that I think we still have to talk about and piece out is when you're at that local level, the federal government is still sending you things in a particular stovepipe called highways, or transit, or whatever it happens to be. And we're not really giving these leaders -- corporate, civic, political and others -- you know, the difference to basically differentiate between St. Louis and Seattle, or Pittsburgh and Phoenix, in a way.

And I think that's a really interesting part of -- that is the European move in a way is to allow much greater flexibility in exchange for greater accountability. But it does begin to blur the lines between these silos that we have at the national level, and I think that some of the examples that are coming out of CSIS and others really are trying to join up a broad swath of infrastructure elements that you could invest in, I think in collaboration with these local and metro leaders.

So I think that's a really tough part of the problem. I mean after we've fixed the political log-rolling, you know, and a kind of a lot of these other things, this flexibility question I think is a very tough issue for how we're going to operate.

MS. BARRETT: Just a quick comment on the U.S./European contrast, I think we're moving to the middle, or I'd like to believe we're moving to the middle, and both cases they've got a very federalized system where there is, you know, an investment on a level that most of us can't quite relate to in, take just circuit transportation or other infrastructure systems. But the decisions are very tightly controlled at tat national level.

There is a movement in many countries like the U.K. to strengthen metropolitan decision-making structures here in the United States we have, I think, more micro localism where we certainly look to and rely on the federal government to do certain things, but we jealously guard that decision-making at the local level.

In the six-county Chicago metropolitan region, there's 272 of those mayors local. We've got more in Illinois than Pennsylvania and -- you know, those two states top the list. But it's not much better in most places.

So other than the federal transportation bill which requires metropolitan areas and now work force resources is a more recent example where there's a requirement for a metropolitan strategy and a consensus-building, that in a lot of cases that's a lip service. But I think the governance question that you're bringing into this discussion -- Can the federal government in helping create some sanity over the process where too much is earmarked? -- also introduces an incentive for metropolitan regions to put through and come up with -- for Governor Vilsack it was -- it was, you know, three priorities for the state of Iowa.

It's going to be different for different metros and states, but I think what we're missing are strong regional intermediary institutions. Those shouldn't be dictated as to what exactly they should look like, but I think they have to exist and they have to be strong.

SPEAKER: Can I make a quick -- first of all, I think Europe is not, obviously, homogeneous. I think the U.K. --

MR. KATZ: That's clear.

SPEAKER: -- I mean it's really too bad that Tony Blair got bogged down in Iraq because I think, actually, the Labor government has done a lot of very creative things in trying to improve the way they make decisions, and allocate budgets, and organize the health service and other stuff. And the infrastructure was very severely depleted in the United Kingdom, and I think they're trying to improve it in ways that we could learn some interesting lessons from. I agree very much with that, and I think we should do more of that.

In terms of the other point, I think again you're right. I mean one goes back to thinking about the environmental issue -- getting sulfur out of the air, for example -- and because of the political constraints that we couldn't damage the coal miners in the east and so on, we had all these technologies mandated, initially at least. What we want to do is to say, We want this much pollution reduction, you guys figure out the best way to do it. And then the same is true in lots of other areas of the infrastructure.

MR. KATZ: Rob is going to tell me what the time is. I don't wear a watch, so you'll tell me. And so we're going to open up for questions. Right over here.

MR. SCHROEDER: I guess I should identify myself, Robert Schroeder with the International Investor. Sorry I arrived late, but I had to go through some highway traffic and mass transit problems coming here.

You know, if I could just reflect on a thought. My firm, we receive bulletins almost weekly on what defense contracts would mean to particular districts in terms of employment, subcontracts, and money through the door. If I could say one thing, it's that the federal government, state governments, -- and, Ms. Barrett, no reflection on you, but metropolitan governments have been dumb, slow, behind the 8-ball when it comes to selling what it could mean in terms of these schemes for their various districts whenever there's even a proposed project.

I think they've got to get much more sophisticated, much smarter about selling this to people and comparing it to how dollars could be spent otherwise. We all know now that there are cases that could be made for spending in Iraq, whether on our embassy there, et cetera, et cetera, but somewhere down the line somebody's got to make it an effective selling pitch to the people in these districts. And I don't think they're convinced.

As you said, they see only long-term goals further down the line. They need to know that there could be some immediate gain from these projects.

MS. BARRETT: Practical. It makes sense. The return on investment argument we have found has unleashed support. We've got a lot of traction among employers in Illinois on employer-assisted housing, and one of the big selling points is that when they put their money in and then tax and state incentives, they get return on investment within 12 months on that worker benefit to live closer to their job, you know, wildly popular when you compare it to any other benefit. So that's a private sector calculation of the return investment that's encouraged by some very small state investments.

Similar thing with transit. I think we get tripped up with a different set of terminology when we're talking about transit, when we talk about investing in roads, typically, we talk about subsidizing transit. That's wrong because, clearly, the tipping point of congestion DOT-OT show that we are agonizingly close to having an impact on traffic, but we don't go that last three percent. If we reduce volumes on our roadway by three percent -- and, of course, transit can have a big impact on that -- you're going to see a 30 percent reduction in congestion.

So it's not like we have to, you know, remove half of the cars off the road. We've engineered for a certain volume, and we're three percent over that in most metropolitan areas. And so if we come up with these strategies -- for example, we're having a debate that's going nowhere in Illinois right now about our state investment in transit -- what's being proposed will have a 34 percent return on investment. Those numbers are there, we're trying really hard to promote them, but I think we need some help, and we need the stage to be set with our national leaders for a different kind of conversation that takes the subsidy mentality away and talks about priming the pump of the economy.

SPEAKER: I want to talk a little bit about the subsidy mentality. I want to go back to what Martin said about the Acid Rains Program. We tried a lot of different methods to control acid rain, and the most powerful one was to turn it over to the brilliance of private sector with the appropriate environmental incentives.

What we need to do is to have a probable radical attempt to use the private sector correctly in a lot of these areas. Congestion is a prime one. We have airport congestion that is literally a result of the fact that we charge in the same delay in the middle of the night as at peak time. We have traffic congestion that is not the result of underinvestment in many cases but the fact that there's no cost imposed for congesting arteries. And that is the urban congestion and the competitiveness aspect of congestion are the same problem. A lot of our interstate travel is in the big cities, and those arteries are crucial ones to use effectively.

Congestion pricing provides a built-in financing stream for maintenance and operations and, you know, we need to just try something very common sense here and not try to reinvent the government, which is a hard, hard, civics problem.

SPEAKER: Right.

SPEAKER: Right. That's one of the things they're doing in the

U.K. I mean the Mayor of London, who is a socialist, for goodness sakes, is using congestion pricing.

MS. BARRETT: That's right.

SPEAKER: Bruce, there seems to be a common consensus that there is infrastructure investment requirement in this country at a city, state, national level. And the discussions that revolve around the need really are not productive. Everybody agrees that there is a mechanism requirement -- a mechanism requirement, but nobody seems to know how to get to that point.

And the discussion here today, which is very valid, points up the difficulties of how a free society gets to that point, an electoral society gets to that point. I take notice of the fact that recently there have been two bills introduced, one in the House and one in the Senate, and the Senate's haloo god (?), which specifies a certain amount of money and a mechanism by which infrastructure investment can be made. It doesn't tend to some of the micro issues that you're bringing up here that are very important, but nevertheless it seems to me that that's an advancing -- it's advancing the ball.

Have you some commentary about the benefits and the desirability of a congressional approach before we solve these other issues that allocates a certain amount of money in a pseudo capital budget? It's not called a capital budget but it is setting aside a certain amount of money that will be used for capital expenditures. Have you had a time to look at those bills and see if they fit?

MR. KATZ: I've looked at those bills, and then I think this is a fairly substantial departure from how we've done business. And I obviously support moving dramatically away from how we've done business. So it is trying to move toward more of an infrastructure. Bank, you know, more of a competitive process, more of a merits-based process. It is more modally agnostic than most of how we do business now. It allows for a bigger pool of infrastructure projects to be assessed, evaluated, and ultimately financed.

And there's a level of performance and accountability, either a metrics put into this process that are really quite different from how we normally do business. And I think, you know, my sense is that those -- those pieces of legislation deserve a pretty substantial area.

Now, the question will then be, how do you take existing systems, you know, where there's still a lot of constituencies and a lot of momentum, and a lot of built-in legislative calendaring going on. You've got to reauthorize X- bill or X-law. How do you then begin to reconcile these things?

But I think a lot of the principles we're talking about here are almost reflective of that. I mean and I think it's actually one of the few efforts in recent memory to sort of try to really crack the code on what is fairly dysfunctional since -- I mean it's hard to imagine another area of domestic policy where you pretty much would have people, you know, from one side to the other saying this is just completely undisciplined without any sense of national purpose or accountability benefit.

So I mean I think those are -- I mean I don't know of anyone else who's had an opportunity to look at these particular pieces of legislation.

SPEAKER: I haven't looked at the bills for any, but I mean, you know, first of all I think you have a much more authentic view of the rest of the domestic policies than I do. I'll just say that for the record.

My reservation with it sounds like the bill does is I'm nervous about approaches that say here's the number we need, $300 billion, $600 billion, without imbedding in the approach mechanisms to surface valuable projects through some sort of observable criteria and then cumulate those valuable projects to the genuine number that you actually need. And, you know, the reason we have a good approach when we use some sort of pricing mechanism is high prices tell you, you don't have enough of this thing. And, you know, when someone's making lots of profits, we can get entry and more of it.

We don't have anything like that in the infrastructure area. We rely on political signals to give us the information that we have something more, and those are confused with lots of other objectives.

So I think we really need to build into this system more in the way of, you know, having people put their money on the line and reveal when they want more in the way of some sort of transportation infrastructure.

SPEAKER: But you could marry up -- you could marry up --

SPEAKER: No, they aren't mutually exclusive.

SPEAKER: What you're describing before, which is a very, you know, saying to metropolitan X, you know, we want you to come to us and tell us how we're going to reduce congestion here. I mean, what's the -- you know, what's the array of opportunity? And this could be a sort of a finance mechanism that --

SPEAKER: Can I make a comment?

SPEAKER: They're not mutually exclusive.

SPEAKER: I know. I agree. It's totally misdirected toward one another, and a totally different level. We're talking here today about a tremendous need of infrastructure investment which has failed in our country. Prior to 1972 this nation spent about three percent of its GDP on infrastructure investment, a public investment of some sort, and since that time it's about two percent. And that's a tremendous gap that each year builds on the need.

What the purpose of the bill is, while we are discussing this in the nation's capital of what the modular attention to veto is going to be, let's say we're going to put in $60 billion to build -- roads bills. Maybe they won't be the ones that you would prioritize, but within a short period of time we're going to expend several billion dollars -- many billions of dollars -- in infrastructure investment. It may not be the most practical way to do it; it may not be the most perfect way to do it, but there's going to do it while we are still discussing the more perfect way.

So it seems to me that the congressional people who are venturing out in a very bold new area and saying, Let's appropriate money or funds that in a partnership is going to be used for the private sector, with financing capabilities of the country to raise money, and with the local governments for accountability and prioritizing, and the federal government for general oversight but providing the necessary guarantees for the projects from a financial point of view.

That's a large step forward, and it doesn't seem to me that anybody has advanced anything conceptually that would equate to that kind of large step. So I would -- you know, I would suggest that while you're thinking of a more perfect system of how to organize the national priorities, it may be to take a little detour, an infrastructure detour --

MS. BARRETT: Sure.

SPEAKER: -- and build the road toward getting something done.

MR. KATZ: It sounds like what -- because we are talking about a fairly systemic overhaul that, you know, this is a longer term -- you know, I mean the administration started -- this not Day 1, Day 5 -- really building towards a more coherent, rational, evidence-based approach to infrastructure. We'd be for quite some time, but you're right, there could be transition steps along the way.

Other questions? Right over here.

SPEAKER: (Off mike) -- in Boston.

SPEAKER: This is the softball question.

SPEAKER: What are the lessons learned from the Big Dig in Boston?

(Laughter)

SPEAKER: Well, I think it does point to some of the dangers that were mentioned about, you know, you appropriate public money, and then you don't necessarily monitor appropriately the way it's always used.

I don't know enough about the specifics to go on very long, but clearly they've discovered some serious problems with the Big Dig, and I think if you're going to have that kind of public money going into something, you've got to have the right incentives; otherwise you're going to end up in the situation that they're in.

Let me just quickly go back to the earlier point. I mean I think Doug and I tend to agree on a lot of things, we're both sort of economists. I do think that there are some areas of infrastructure where probably the market doesn't work and where I was, really, that you need to appropriate the money and put public funds into those.

And, for example, in London they do have congestion prices, but they also have a pretty good metro system and bus system so that people who don't want to drive can get to work.

SPEAKER: I want Richard to come in on this, because I think the focus on this function of the implementation of the big dig has obscured one essential fact, is, we built a lot of infrastructure in the United States in the 1950's, for the most part, along water fronts, in major cities in the United States that were built for a different kind of economy. It was built for, you know, sort of the leave it to beaver community patterns, bedroom suburbs coming into central city downtowns and other employment notes. That's over, we don't have that kind of community in the United States anymore. What we do have is the overhang of a lot of infrastructure, mostly freeways or roads, built along some of those valuable properties in central cities, you know, given the new function and the role of these places.

So at some point, you've got to either bury some of that infrastructure, convert to boulevards, which they've done in parts of the country, or convert to green space. And I think that's what's been lost in the big dig conversation. You know, the money, you know, was misappropriated, it wasn't implemented well, absolutely, I mean that's why we have inspector generals and that's why, you know, we should have enforcement over the public fist.

But the broader purpose of the big dig was to realign the city of Boston to a radically different economy, with infrastructure that it really didn't need anymore. And I think there's lots of examples in other parts of the country where we've got to retool for a different century. I think that's the kind of infrastructure investments that really do provide incredible returns on investment, because you're really freeing up very valuable property for the highest and most productive use.

SPEAKER: I would say that, you know, again, this sort of gridlock makes it almost impossible for local communities to even begin to think in those terms, because the process of trying to recalibrate your economy with the kind of impediment you have with these highways that were there, and cropping the opportunity to do new kinds of development, and try to find the resources to do that is an unfortunate byproduct of where we are today.

I mean these things ought to be going on all over. We've seen some of that in Europe, where port cities and places that were in the 19th century economy are readjusting to try to adapt to new economies. The ability to do that in the United States, with the size of the investment that's required, is a real challenge unless you're in an economy where you can support that at the state level.

And so these things are going on, there's a lot of discussion about it in the local communities, but the wherewithal to get it done, we're in St. Louis trapped right now with the same situation, and civic leaders were hoping to be able to do something about our highways that cut off the downtown from the river, and they've sort of given up because the costs were so prohibitive that nobody could figure out, even with Kit Bond over the Water Resources Act, being able to do it.

Gephardt's comment to me before he left the Congress was, he only hoped that at some point in his political career he could have a Public Works project like the big dig in Boston named after him ten years after he was dead. And, you know, I mean it was a pretty wry commentary on the state of, you know, where we are today in the politics of America, that these kinds of things, you know, are one off deals when many, many cities ought to be doing virtually the same thing, but there's no --

SPEAKER: Doing it better.

SPEAKER: Huh?

SPEAKER: But doing it better.

SPEAKER: Doing it better, sure, absolutely.

SPEAKER: But this gets back I think to this particular piece of legislation, because I think what you invest in matters, and I think that's been so lost in this grand, you know, soup of, you know, federal decision-making. You know, certain infrastructure projects really do sort of unleash dramatic market potential, in addition to creating jobs and all the other things. The question is how you distinguish among the stuff. A few other questions. I don't see where the -- right over here.

SPEAKER: Yes, I think you're giving either a little too much or a little too little credit to Congress based on some of the comments here. Having worked in Congress for six years, actually, the most articulate excited people who would come into the office and the most diverse coalitions of groups would be people talking about these very local, usually highway or transit projects, sometimes bike projects, not usually sewers, but occasionally, because I think locally, people do get that this is essential to their economic competitiveness, to their quality of life, to the environment, and I think that's seldom articulated to members of Congress, and certainly never articulated is what does that sum up to and what does it mean at a federal and national level.

The current bill has no national purpose stated in it, it's actually called the Federally Assisted Highway Program, on the highway side, and the transit program does have an element that projects wanting to build new transit projects do have to go through a highly competitive, very time consuming process, where most of the highway money comes to the federal government and goes back, and there's very little requested of the states or local communities to do.

Yes, there's the MPO requirement, but it's not particularly rigorous, and it's not really results or performance based in any meaningful way. So I would be interested in hearing comments about what do you think is the appropriate ask for the federal government to go back to the state and locals to say if we give you this money, what can we ask of you in return for making this federal investment really leverage things locally and be more performance based, so that we get at these outcomes and begin to move away from just sort of having it be a federal spigot of money that people go to Congress and expect to get exactly back what they put in.

SPEAKER: Great question. I think we're all talking about a new compact that's emerging, and you're right, people are passionate about the places where they live and work every day. The problem is, we have debates within these segmented clusters, and the framework for discussing highway and transit doesn't really get at the changes that are happening that Rich would understand.

So, you know, the huge demand for more walkable clustered housing developments, or the fact that most of the commercial office and retail space that we're going to be needing over the next 50 years hasn't been built yet.

You know, the stranded infrastructure is viewed as a problem unto itself as opposed to the way that people experience it. So somehow building into the criteria that the federal government uses itself for funding nationally significant priorities, infrastructure priorities, but then also passes on to states to customize and regions to customize I think has to put a numerical value on congestion, and economic growth, and mobility, and air quality, public safety that then captures all of the synergies that are out there for the asking.

You might think about an urban water front roadway that either needs to be torn down or needs to be decked or needs to be, you know, greened up, and if we can capture the benefits of the collateral development, the real estate activity that's going to happen, and also look creatively, not just in a pricing strategy, but unleashing the potential of the markets also, I think should include, in a tax incumbent financing concept, how do we capture some of the real estate potential around these infrastructure investments that we may be reinvesting it to help fund those assets in the future.

So there might be some very creative strategies that the federal government can create financing mechanisms, that -- incentives for us to encourage. I know that transit oriented development is a term we've all used -- heard, but it generally doesn't recapture the dollars to support the transit system, it's dollars that go to the municipality.

And so creating some more connectivity to talk about, we'll prime the pump, here's how you benefit, how are you going to contribute back to reinvesting in that system, that's what's missing.

SPEAKER: What strikes me about what you're describing is the current system of transaction. People come to Washington, city, metro, business, transportation, and they're doing series of individual transactions, earmarks most -- you know, there are other forms, as well. I think what Mary Sue is describing, what we're all talking about here, it's a very different system, where the feds are sort of saying, you know, here's the kind of goal people should aspire to, and you know, you were going to give you a hell of a lot more flexibility for how to get there, some is going to be prices, some is going to be new investment. I think it's -- I mean this is a big shift from one kind of system which has a certain kind of habit associated with it, very different, you know. How do you make that transition is the interesting part. Now, there's one over here, and then this is it.

SPEAKER: -- strategies. Bruce, you mentioned, very appropriately, the problem of stovepipes, of a physical infrastructure as a corollary to that. It seems to me that there is -- and you all have mentioned the need for a more modern era, new economy kind of thinking.

Well, in the modern economy, it seems to me that there is an obvious trade-off between knowledge capital, information capital, communications human capital, process capital, which is largely intangible, and the traditional thinking about bricks and mortar, tar and concrete, physical capital, and my discomfort, as some of you have expressed is, when you tie a large budget to physical infrastructure, you eliminate the opportunity or obstruct the opportunity for the larger kind of strategic thinking.

Concrete examples are telework, telecommuting, telemedicine versus building more physical facilities, and I'd like to know what you think about that.

SPEAKER: Well, I agree, we can't be locked. It's certainly true in the private sector that traditional investment in heavy industries and heavy equipment is no longer what most businesses are doing, investing in people and in knowledge and all that kind of stuff. A lot of their capitalism, tangible capital, I think that creates its own budget difficulties, and Doug is much more of a budget expert than I am. How do you -- how do you make budget decisions in that kind of framework.

But I agree with you, that's part of the challenge, it's not just spending on physical infrastructure, although I think we need to do that, but making sure that we're also spending and giving opportunities for the development of that intangible knowledge based infrastructure, as well.

I think a number of other countries are facing that same challenge. Now, maybe it's around building out broadband, I think we're going to talk a bit about that in the second panel here, but basically I agree with your sentiment. You have to not be locked in a traditional way of thinking about infrastructure.

SPEAKER: I think that's right. I mean there's no magic bullet, but one of the things that I've always hoped is that you can put these decisions on a level enough playing field that you're not stacking the deck. So I've always favored expensing private investment because that's what we do with private investment, and human capital -- that's largely what we do with private investment and tangible capital. Let's level the playing field and let businesses go figure out the best thing to do. From a budgeting point of view, you'd like to have the same kind of level playing field, don't stack it, and no artificial barriers.

I'm always nervous about approaches to budget and say we want X percent of GDP. The military used to have nine percent, they want nine again, you know, and we've got little combat ships that are $240 million per ship than they need to be, and you know, why would we want to create a stovepipe X percent of GDP when we've got bad decisions coming out? So you want budgeting to not build those kinds of barriers, put the dollars on the table, and try to make the best decisions you can.

SPEAKER: We're going to move to the next -- I just think that the challenge that we face, and I think the next panel will probably talk a lot about the innovation bubbling up. But we are really talking about moving from one kind of -- that has gotten worse and worse and worse over time become a very transactional, non-accountable system, to something that is really, you know, begins to talk about infrastructure as a means to an end and in a way that really breaks the barrier between physical and non-physical. I mean it's a very different conversation. It doesn't quite comport with the way we legislate, it clearly doesn't comport with the way we govern, but if we're serious about dealing with some of the major challenges, we've got to make this transition. And there may be some ways of doing, you know, steps along the road that we might be able to experiment with and innovate with that basically get us to the next place.

But I want to thank the panel for participating. And we are now going to ask Neal Peirce to come up to moderate the next panel. I think many people in the room know Neal Peirce, he's probably the pre-eminent urban journalist in the country, and now also runs a network of journalists and metropolitan observers called City Space, so Neal.

SPEAKER: All right, folks, if you can please take your seats again, we want to go ahead and get started. And while folks are -- the panel is being reassembled and they're being outfitted with their microphone, just a quick commercial. There's a tremendous amount of information on our web site about not just this forum, but a whole host of infrastructure work that we're going to be doing going forward.

This video from this event will be posted on the web site. I don't want to put too much pressure on our web folks, but within a matter of hours I think, so we can follow-up with that and with a whole host of other things going forward. I think we're missing one more panelist. So if everybody can just retake your seats and I will turn it over to Neal.

MR. PEIRCE: I guess we're ready to begin. Welcome to all of you on the panel. And I'd like to make this a fairly seamless transition from the conversation we were having a few minutes ago. I thought one of the most interesting things that came up was the idea of a new federal accountability system where states and localities have a lot more freedom, but must be responsible for results on a broader frame than has been discussed in the past.

So I thought I had asked Howard Duvall about that versus the much discussed potential of privatizing a lot of American transportation, especially the idea of toll lanes and privatization of various types. It seems to me to be a competing kind of idea, and I was wondering if you can comment on that?

SPEAKER: Yes; first of all, I'm not sure that those are competing ideas necessarily when you talk about that. I mean I think the basic change in policy approaches at the federal level is something that we've had extensive discussions about internally, and they're currently working on some ideas.

I've said to everybody, I don't think this administration, zero chance that we preside over the next surface side reauthorization. We've got, obviously, major aviation reauthorization still pending for many months, it will be pending I think before the Congress. But I think the basic idea of removing I'd say the process requirements that produce little or no outcomes and focusing much more on outcomes and trying to get more out of the tax payer resources that we're investing in the system is something that we have talked about extensively. The Secretary of Transportation just testified in front of the Senate, and the House made that exact point that basically our focus is way too much on process, way too little on outcomes, and I think we will put out a proposal that I think will sound very familiar to the folks that just talked about the last panel.

I think in terms of the role of the private sector, though, I think our view is that, and totally generally is, they actually can improve accountability, that they are not inconsistent. If you've got a federal grant program structure, it should be used to drive better performance, to provide better incentives for good management of the system.

We don't think that tolling the private sector are inconsistent; in fact, we think that there are increasingly ways in which you can improve accountability to the customers of the system, and I think that -- let me just say, in our view, the single greatest failure is that the customer of this network, these massive networks, are really not engaged and not viewed as customers and really are not at all part of the public policy debate we have here in Washington of the future of these systems. So I'm not sure how long we're supposed to talk, but --

SPEAKER: I'll interject just one question. The private sector will have certain things it can invest in easily --

SPEAKER: Right.

SPEAKER: -- and roads and tolls look easier than financing mass transit, so don't you have an automatic built-in skewing as to what is possible which then effects how much you can have a general public discussion about what type of new infrastructure you need for -- you heard the word "modally agnostic" used earlier in the day, for taking an objective look and seeing which are the best investments to be made in terms of mobility, but also climate issues and land use issues.

SPEAKER: Yeah; I mean -- you're really saying, though, the prices, they should reflect the true cost, the total cost, the -- cost of these things, and I think that the public -- the government can basically set employees pricing policies that accommodate private sector investment greatly.

And I think in terms of the willingness of the private sector to invest obviously in speculative, risky projects that may not pay for themselves either immediately or on a very long term basis, that does not mean that the private sector cannot participate on an operating basis.

And we've -- the Federal Transit Administration has received in the last year four proposals for significant private sector involvement in operating transit systems. I mean it's a basic incentive failure question, and we think that you can put incentive structures in place that will encourage private sector efficiencies in the operation of all systems. It's something that Europe is exploring intensively as we speak. So you're right that, you know, a lot of transit systems, most, if not all transit systems throughout the world, are not -- I think the -- metro may be the only one that's a major exception.

But that does not -- the conclusion of that is not that the private sector can't participate in the -- and operation. We think, frankly, that you'll see significant private sector interest in public transit as you get the subsidy framework more coherent.

SPEAKER: Well, George Bilicic -- I can tell that you have some thoughts following up on these questions.

MR. BILICIC: Well, I mean this is speaking on behalf of Wall Street I guess. This is an area of burning desire on Wall Street interest, especially as we watch the leverage loan market collapse and the mortgage issues, and so pools of investment bankers with fancy suits and cuff links are flying around the country trying to talk to governments and persuade governments why it's in their best interest to privatize assets, sell lotteries, use a lot of leverage to do things.

And our observation as investment bankers very focused on this area is that a lot of what's happening is very reactive from the point of view of the governments, and it is something that is going to be a big part of the future, in our judgment, in this infrastructure funding area. But what we see is the governments, whether it's at the state level or the local level, not all governments, I think there are exceptions to this, have not gone through a process themselves separate and apart from the infrastructure funds and the investment banks that are visiting them, where they take an inventory of their assets, they look at their long term capital budgeting needs, whether it's via a capital budget or otherwise, look at the funding needs over the long term, the growth objectives of the relevant governmental entity, and then look at the assets themselves and decide what their options are, and then put it through a public interest and public policy and public supportiveness filter.

And so, quite frankly, some of these things that have been announced and are being looked at have resulted in, you know, a political disaster for various governmental officials. The public support around these situations are not -- is not what you'd otherwise, you know, like to see.

And so I think that as the private pools of capital focus on the United States, and the investment banking firms focus on this as an area of inquiry, that's just a process that governments need to go through. We've actually done a national poll. It's sort of unusual for an investment bank to do a poll, but we did a poll because we were watching these things, and we don't feel like we particularly competent in terms of giving public affairs advice to governmental officials. But it was interesting to look at the poll results as laymen, and to then look at -- and then lay that down next to what different governments were announcing.

And so what polls very badly, for example, is this 99 year lease structure. People responding to our poll, which was not conducted by us but conducted by someone that we retained, so it's presumably reasonably competent in terms of the results, people hate the 99 year lease structure. They like --

SPEAKER: The most popular mayor in America has the most unpopular project --

MR. BILICIC: Well, there's an exception to the -- there are daily exceptions to everything. And then different assets poll differently. So parking garages poll extremely well in this study, but lotteries surprisingly don't poll well. And we just, again, as we talk to governments, and our objective as a commercial for Lazard is to be the advisor of choice to governments in this country as they think about their infrastructure strategy, because we just don't see that work having been done.

And as an M&A banker, what I also see is that the governments are reacting to these proposals that come in and not -- they don't have control of their own destiny, again, with the exception of Mayor Daily.

SPEAKER: But control of destiny really involves some of the -- would involve some federal goals and incentives, sort of rules of the game, but allowing substantial state and metropolitan area decision-making, that's what you really would like to see?

MR. BILICIC: Yeah; and I think it depends on the area, too. So in the utility and power area where I spend part of my time, the issue is not investment incentives. If you want to build -- there's so much capital available to invest in federal -- in interstate or intrastate transmission, electric transmission lines, that that is not the problem; the problem is more of a permitting issue.

In other areas, there is a greater need for governmental incentives. So investments in alternative energy, you still need the production tax credit for when to work. It's getting close to where you're not going to need the subsidy, but you still need it for solar, although -- is becoming more reasonable and closer to being competitive. There's still a great need for federal tax support in state and local incentives to make that work and be competitive, these are the other sources.

SPEAKER: I'm going to ask Ron Sims if he would comment on this point. There was an interesting study released a couple of weeks ago by Urban Land Institute and Smart Growth Allies called the Growing Cooler?

MR. SIMS: Yes.

SPEAKER: Which essentially said that land use was the big and undiscussed part of the equation -- growth -- forecast for the United States in the next generation for its next million or hundred million -- people -- have a huge amount of reconstruction.

They also said that the top A standards, more efficient automobile engines, vis-à-vis the -- and global warming aren't going to get us there because they still -- you can have more efficient engines, but you have huge -- and vehicle miles traveled and so on, not much chance of reaching your goal.

And that particular study made the pitch that if we thought about building more compact communities and really had a national or local and state and national policy in that direction, you might have a chance.

So that made me think about the whole issue that you've been pretty keen on of the question of how we measure the issue of C02, global mission, carbon emissions, and this rather outrageous statement you made a couple of years ago that we have to pretend we're in 2050 and looking backward at today's investment.

MR. SIMS: Well, we made a decision to look at 2050. We worked with the University Washington School of -- Impact and asked them, what would our environment look like in 2050, and their report was very disturbing. I think all of us have assumed there would be a constant -- that global warming wouldn't really up that to us, and we found out that it would have a substantial impact on us.

Species change, how we handled growth, so mirror effect, heat -- there's a whole series of things that they raised, and all of them said that we would have a significant loss of our quality of life in our region.

So we started planning backwards and making decisions today that we think would not exacerbate global warming in the future. We think the number one -- there's been a lot of discussion on infrastructure, but very little discussion on the fact that we have to reduce our mission.

We can talk about competitive edge, how do you obtain a competitive edge and reduce your missions at the same time. So we -- process, and it's been exciting because it requires us to rethink a lot of things that we do.

One is, it's very clear that sprawl if we continue to do that, one, we can't afford it, two, we can't be -- we can't meet the operation and maintenance needs of sprawl, there's not enough money in the world to do that, you can't build out to it, so we'd like tighter communities, more dense communities. King County government is the regional government, Seattle is one of the 39 cities in it, and we have 1.8 million people. So we have a definitive urban -- because we have found out that sprawl never pays for itself.

We were one of the six cities that use the Department of Transportation selected for congestion pricing -- and the -- I mean it was pretty remarkable for I think the Department of Transportation now to move forward in the congestion pricing, because it's an -- that we can't built out of it, that we can't tax out of it.

It's a very effective tool for us that we do see -- it says that freeways are not free, and we've known that for a long, long time, and now we're putting a price on them. We know that it reduces automobile traffic. So everything you'd want to see in the nature of global warming came out of that package.

It also says you're going to use new technologies, both for the tolling purpose, but also for work purposes, and that they're going to augment that with transit. So it's one of those models that you look at and say, wow, you know, to us it is an incredibly new powerful national initiative that we believe will allow regions to reduce their missions and maintain that competitive edge. It's pretty extraordinary what they did.

SPEAKER: You've been on the cutting edge politically a little bit, though. You spoke out early against renewing, something that Bruce Katz was talking about, all the freeways along water fronts and other locations, and you were not in favor of replacing the Alaskan -- one of America's great eye sores, and now I understand you're on the less than politically endorsed side of the big mass transit and highway financing proposal --

MR. SIMS: Yeah; we're in an area that roundly denounces the administration for not moving toward the treaty or actually trying to achieve 80 percent reduction by 2050. So what do we do as a region? We put together a package that says we're going to have expanding free -- miles of them, we're going to have a single technology for public transportation, which is light rail, and after -- in ten to 15 years, we're going to increase our missions by 18 million tons per year.

Now, you know, you can't have -- you can't lead by saying do as I say, not as I do, and so I basically said that we're going to put a -- create a tax structure that binds not only me until I'm 110, but my son until he's 80, and my granddaughter until she's 55, and say that this is what we're going to hand you, and it won't reduce congestion, and it does increase emission, and I want to go back to it.

I think that whatever we do on infrastructure has to be molded and shaped around the fact that we're going to have extraordinary changes to every metropolitan area in the United States, actually every area of the United States, profound changes in global warming, and you can't say we're going to continue to omit for purposes of our economic efficiency, and then go down to Brazil and say please don't cut down your tropical rain forest, or go to Africa and tell them the same thing, they're going to say, no, our quality of life we want to be raised and we're going to do what you do, if you're going to industrialize, we're going to industrialize.

So we've really got to make a substantial commitment. Like I said, the U.S. Department of Transportation has taken an incredibly bold step. I don't think any of us in our wildest dreams ever thought we would ever see variable pricing here, the use of different kinds of technologies, put it in -- spaces.

So I hope that Congress embraces it, but I think for metropolitan growth, it's very clear that we can no longer have non-priced -- we have to price our decisions, and pricing limited access lanes are going to be very, very important for us.

Like I said, a reduction of automobile use is an underlying issue here. We keep talking about congestion, we're going to be talking about the fact that we're car dependent. So this allows us to affect car use by pricing it, but it also allows us to augment or compliment it by the increases in public transportation, parking -- lots, and the advantages of using new technologies. It's -- you combine that and smart growth, and all of a sudden you have a world leader.

SPEAKER: But it's a rising -- it is a real challenge to the American mindset in terms of how they've done local planning and done it all.

MR. SIMS: Oh yeah; even for us, I mean, you know, we are a growth management county, 98 percent of all of our growth right now is directed to our urban areas, we exceed our standard of 95 and five and two percent in our rural areas, so it's an area that takes great pride in, you know, our savings -- our beautiful mountain ranges, our acquisition of parks, playgrounds, open space, and yet this issue is the one that has been most challenging for us because people are trying to say, but is 18 million new kinds of emissions really a problem, and then you say, but the state of Washington is the size of -- the state of Washington omits the same amount of emissions that the Philippines does, and the Philippines has 12 times the population of our state, so in fact, it's important that each state embrace the issue of reducing its impact upon global warming, adopt the infrastructure that drives down its emissions, and -- but it requires us to do things much differently.

We -- and it's also an interesting health issue. We did a study with a major university on the fact that commuters don't do well in health, and we all -- we're living longer, and that's very true, we're living six years longer. Two years of it is a quality of life and four years of it is the onset of morbidity. So that's just a fact. That is not true in other places in the world that have done a thousand little things like adjust work hours, reduce commute time. So what we're doing in our government is, we're going to talk about remote work centers, telecommuting, commuting in on off hours, but an array of things so that people have a life, and that's really key, to be able to say that we don't want a person having to commute more than one-half hour from their home so that they can actually get home in time to enjoy their families, to live, because when we did health studies on immigrants, we found that the average immigrant's birth weight was better than that of the standard middle class American, which is I think stunting the people.

And the reason why is, their social systems are still intact as immigrants, their diets are not western yet, so we want to go back and say for our own employees, hey, maybe it's important to have a life independent of work. So we want to tell people, you don't live to work, you work to live.

SPEAKER: I'm sorry, I guess I set you loose.

SPEAKER: You did.

MR. PEIRCE: I'd like to talk to -- turn to Leo Hindery now for a view on broadband and its potential within this field, because it seems to me it's part -- it looks like part of the alternative to how we use less energy for more economic activity.

MR. HINDERY: Neal, just before I -- if I can just offer a quick comment on George's views, I think this private financing of largely municipal assets is fraught with much more risk than is giving credit. I think these are structurally regressive assets by their nature, and how they're employed by people of lesser means is something that is often ignored in the equation. What's doable --

MR. PEIRCE: I'm sorry, what's a structurally regressive asset? I need to understand that better.

MR. HINDERY: A structurally regressive asset is, how imperative is it that you use that highway based on your income level and your alternatives. And I think you can make that case by -- upon a number of these municipal assets.

What's doable and what's appropriate strikes me as quite in conflict. And I come from a world of private investment, and I will simply tell you that if you impose private equity returns on capital or returns on equity because of the exigencies of short term budget crises and municipal or regional settings, you will hate the outcome. It is grossly unfair to suggest that 15 percent average returns on capital should be imposed on municipal assets, and I think you will compound the regressive outcome.

Let me talk to you a little bit about broadband. I thought the gentleman who posed the question right at the end of the last panel was onto something. Broadband, and there's a nice report that was handed out on the desks outside, broadband is what's the most democratizing commercial opportunity in this country. If you really believe that a country of 3,000 miles of width faces uneven challenges, then broadband is a large solution of that.

Ron's comments about a carbon footprint are certainly impacted by how you let workers telecommute, which was what this gentleman raised, how you might approach telemedicine, tele-education.

I think the most democratizing thing that could happen to this land is a national broadband strategy, but one that when we say we have one, we actually mean it. We've said it several times.

Pretty irrefutably, Neal, about a million two hundred thousand jobs would be created almost instantly upon penetrations of broadband that approximated some of our European and Asian counterparts. That would translate into about a half a trillion dollars of an economic activity.

But I think you can come at broadband from lots of directions. You can come at it from the environmental side, you can come at it from the ethical side, you certainly can come at it from these alternative applications side, and I -- nobody other than Bernard Schwartz, in my opinion, has understood the marriage of the old physical infrastructure debates which we're having largely today and this new imperative. It's something that, whenever we have these kind of discussions, I hope we'll keep track of the broadband side, as well.

MR. PEIRCE: Well, could you talk to us about public versus private funding in the broadband sector?

MR. HINDERY: Well, you know, I think this is one where you get a free ride. There are only two providers of moment, the cable industry and the telecom industry, both of whom have structural national mandates. What you need to do is, make sure they don't red line or discriminate in their deployment.

They've received an amazing opportunity from municipal governments, regional governments, and the federal government to deploy their fundamental service. In return for that, they should not be allowed to discriminate.

You don't need municipal financing or regional financing with the exception of just a de minimus amount in municipal buildings, perhaps schools, where Bernard has proposed something called a national investment corporation, which should get more attention. If it did, it would be an interesting place for the Seattle school district to find some instant resource to take that last step.

But 99 percent of what's being called for here has no financing role to be played; it has more of an ethical and a deployment role ahead of it.

MR. PEIRCE: But broadband so far has helped the affluent more than the unaffluent?

MR. HINDERY: Oh sure, because it's being red lined. You know, and concurrent with deployment must become what I call internet neutrality. Don't let me buy a car and then tell me where to drive it or how to drive it. And so the measure here is deployment.

It is ironic that none of our European counterparts, or South Korea, which is held out as an example, none of them have even confronted the issue of internet neutrality, because they never believed it was something that they should be worried about.

Yet when you find, and I come from this industry, if you find the cable guys and the phone guys on the same side of an issue, you want to be on the other side. And internet neutrality would be the recreation in broadband of what was once thought of as the cable video monopoly. Tell me where to go, how to get their filters, what's called the wall garden second stream of revenue, very bad stuff.

But what's nice about sitting next to George on this one, his world cost a lot of money; mine just needs you to be fairer.

SPEAKER: Just on the returns issue that Leo mentioned, what's actually interesting about this area is that there are these pools of capital forming that are different than conventional private equity pools of capital, and they do have lower returns that are designed to match the long term return profile of these assets.

The problem is that in order to win the assets when they're put up for auction, or as governments are approached to sell these assets, the assumptions that underline the investment decision are sometimes unrealistic. So there are a couple infrastructure funds that continue to win asset after asset in every auction across all sorts of industries.

It is illogical to think that that one -- those particular infrastructure funds could be so much smarter than all these other pools of capital. What they're doing is, they are developing revenue projections that are probably unrealistic, and the problem for the governments --

MR. PEIRCE: How about absurd?

SPEAKER: Well, I'm trying to use moderated language because I -- but the problem for governments is -- and they're using leverage that is unrealistic and perhaps absurd.

SPEAKER: Well, you'll get there.

SPEAKER: And the problem for governments is that these transactions are pursued, and then seven to eight years from now, when the relevant individuals who structured the deal and gotten their fees and have moved onto the next asset are not around anymore and the problem is there for the governments, and so this tool which we believe governments should make use of is a very dangerous tool and needs to be carefully used.

SPEAKER: I can tell there's a bit of a, as we've seen in many states, great -- proposals and a lot of political heat generated and sort of public suspicion. How are you all viewing that at this point?

SPEAKER: Well, we don't -- we think it's -- we're approaching this very slowly because we think this is not something that is a 2007 issue from an investment banking perspective, but something for the next ten to 15 years. And we just think that these ideas are being pursued, and people aren't thinking about the politics, and certainly people in my business aren't.

There's a great report that was put out I think this summer around the California lottery by one of our, you know, another investment banking firm, and they said the way to make the California lottery so much more valuable is to put more machines in ghettos, I mean it says it using exactly that language, which is the most absurd, you know, thing to possibly say, and it shows a complete lack of political judgment, and it's just lousy public policy in our judgment, but it might generate a lot of money for the state of California. But if the people who understand this issue and are voting on this question in California understand that it's going to generate proceeds because we're taking advantage of people in the ghettos, that's a pretty real -- a pretty ridiculous way to approach, you know, the relevant funding issue in the state.

SPEAKER: Yeah, I mean -- respond to a couple of the comments here. I mean I think the financial insolvency risk, obviously we don't have to speculate as to whether or not these are bad investments that will play out, and obviously the markets will determine whether or not these were good investments.

And so I think the financial insolvency is -- almost entirely the way these current deals are structured by investors. It may not be the initial investors, it may be subsequent investors, but somebody is going to bear the cost of bad traffic and revenue estimates in the future.

It is almost entirely not going to be the public sector as these deals are currently structured. Obviously, if you've got financial distress, there will be some workout about how the system is going to be maintained and operated and going forward, but the road exists, it's not going anywhere.

The Dulles Greenway is a good example of a road that was in serious financial distress, but the users of the Dulles Greenway every day probably have no clue largely what the background in financial -- were to reorganize that facility. So I think it's important to know that public agencies can structure these contracts in virtually any way. They hold huge leverage in the negotiations. I'd also respond to the comment that we need to obviously be concerned about low income mobility. I think that's a legitimate point and one that we've talked extensively about.

I guess my response to that would be, compared to what, and do we think that the current approach in which we have political pricing and political resource allocation decisions is really benefiting low income people in metro areas, and I would probably assert the answer is no.

So we don't think the congestion, financial failure, bad resource allocation decisions need to be the price of ensuring low income mobility. In fact, we think policies can target low income people directly. Obviously, transit policies are intended to do that. They increasingly become developer subsidies in urban areas as opposed to low income subsidies, so that's one area.

But we also think using technology, you can target communities that you want to ensure mobility with through the pricing system today. The price of ensuring low income access to the transportation system should not be -- system failure.

SPEAKER: What did you think of the question of value recapturing transit oriented development was raised in the earlier session?

SPEAKER: I mean there's no question that these public agencies are creating enormous value for private entities, and we are encouraging public agencies to capture such value. One of the problems with that is, a lot of the existing systems, a lot of the value has been captured. I mean the D.C. area is a prime example of that, the metro was built out, and a lot of these areas.

I used to live in Arlington and it's a great example of enormous -- creation there. But, you know, the reality is that the decision was not made up front to do that. You can't come in after the fact and say, oops, I wish we made some money off that investment.

So I think that, you know, public agencies, frankly, need a lot more financial expertise. I mean that's a clear lesson that we've learned around the country, is that you've got an engineering constructing planning culture in a lot of these public agencies, and I think we need people who are fairly sophisticated with financial deals in the modern world, and we just don't see that.

MR. PEIRCE: I'd like to hear those of you outside of Leo comment on broadband's potential in terms of alleviating some transportation crunches that we have in this country. I think that raises the question also of telecommuting, how big that future is, what you all might think about that issue.

SPEAKER: Well, you know, we're in a region where we have 72 percent I think of all the homes are hooked up to either DSL or cable, irrespective of income, it's interesting. But there's a community that we targeted called the white center community, which is the largest urban poor area in the state of Washington.

And in that community, we did not see the access issues that -- and we wanted to see technology made available because we thought that for people being able to not only get information about their specific needs, whether it was medical, whether it was educational, whether it was job or job training opportunities, if there was something as simple as bus schedules or when the bus was going to arrive, and that their children wouldn't be able to have access using technology for homework, tutorial work.

We, years ago, in negotiation with the cable company, said to them, you can put your cable franchises, and we want them to expand, but in order to do that, you have to give us dark fiber. So we got an extensive amount of dark fiber from the cable companies.

We agreed to hook up schools and libraries systems which are -- we had a lot of the dark fiber that was just sitting there, so we have lift that up, and so we are now providing the wireless service for free to an area like white center, which has 173 languages, it's an immigrant community, probably the most diverse in the whole planet. And the thing that's really helped us -- and I'm a believer of broadband, and we work with the Technology Access Foundation, and we came here in another group -- economy, both who have policies that are driving people to use technology to get them out of poverty.

So broadband, to me, is incredibly critical, and wireless technologies are going to be critical, because we're going to be in a tech world, and you can't afford to leave populations behind. The rising tide must raise all -- and in our -- we're working incredibly hard to do that.

So I'm -- I believe that whether it's even telecommuting, broadband works, and its overall deployment to an entire community helps because it allows people to have what we call a home job site. For low income women in particular, it's very attractive, because time is critical to poor people. I mean I've always heard this discussion, that time is important to poor people, I want to say that you've never been poor.

I grew up in a poor neighborhood, trust me, time is really, really important. So if you have telecommuting for -- so that people can get paid well and yet be able to control what we call that living environment, that's really important because it allows them to be efficient with their time. So I think --

SPEAKER: Can I give you an example? I used to own that cable system, and let me -- let me give you a contrast. Ron is talking about an enlightened city government that did the right thing for its people with dark fiber. I was raised in Washington State, I can go down the road to Enumclaw or I can go across the mountains to Yakima, and they don't have the wherewithal.

Comcast needed the Seattle system to be successful, so Ron was able to negotiate a fair outcome. I'm not worried about Seattle, I'm worried about Enumclaw and Yakima, in North Dakota and South Dakota, and red lining within the city of Takoma.

And, you know, I know these folks, I know -- I was one of them, like a reformed smoker, and I will simply tell you, you have to just listen to Ron to see how good it can be and how unfortunate it can be for others. And absent a national policy, you're going with strength and ignoring weakness on the negotiating side. And not everybody is Ron Sims, and that's a shame that they're not.

SPEAKER: I've noted that in my own reporting.

SPEAKER: Yeah.

SPEAKER: He's a bit of an exception to the rule. What do you think about federal policy vis-à-vis broadband and its relationship to transportation, commuting, these other issues you're hearing raised?

SPEAKER: Yeah; I mean I think there's little question that you're seeing I mean the fastest growing form of commuting, the telecommuting. You're seeing I think the customer really screaming for help in response to massive performance failure of the U.S. Highway System. And so I think that the technology push is going to expand. I think the employers in major regions, we've talked to, you know, probably 50 chambers of commerce in every city in the country, and it is very clear that the employees are screaming out for more options, for working. I mean that drive will continue.

I think federal policy can probably accommodate it more. We, in our little urban partnership thing that Ron referred to, specifically had one of the elements, encouragement, and again, we can't use our grant funds to pay directly -- activities, but we wanted to see a part of the proposal.

What are you doing with your employers to encourage flex scheduling? I mean, you know, the stat we have, which many in the room already know, but you know, you're looking at a five to eight percent shift, you need -- period, but it's got to be sustainable, which is why you need a price mechanism.

But a five to eight percent shift in time, you know, the August phenomena, the secretary talks about it all the time, you're in D.C., you've got Congress on recess, and you've got about five to eight percent of the population not working, enormous increases in speed and reduction in congestion. And so we are very close in the urban areas, if you can just provide a little more schedule flexibility. I know Tony Downs is skeptical of this concept of pricing because he thinks we kind of work similar schedules and it's very difficult to shift. I think we obviously are a very different work force than we were even ten years ago, and I think that's enormous possibilities.

I think the federal tax policy should start to consider some of these questions in the future. I know that, in fact, the New York Times was writing about that extensively in connection with the urban -- the pricing demo they've been talking about, as to whether they could accommodate more work from home.

That's out there, I think it's an important issue. We're not the lead agency, but what we've told employers is, this is part of your engagement. And I'll be honest, and not to rip on anybody's part of a major urban chamber of commerce, but the business community in America, they're engagement on transportation is not what it needs to be right now.

In fact, one of the reasons Seattle was selected was because of Microsoft's desire to participate and their application, that was the major factor in our analysis, it is a major import in the region, and I just think we've got to do a much better job in businesses --

MR. PEIRCE: Sometimes I do wonder, though, you said six to eight percent reduction at peak time; what if a global warming impaired and says it needs to be a 15 or a 20 percent reduction, how does that --

MR. SIMS: Well, I mean that just, again, speaks to whether we price -- emissions and to what extent. I mean I think our view, again, it's largely a state and local issue. The federal pricing policy needs to accommodate these decisions at the local level. A lot of opponents with liberalizing pricing in the metropolitan areas in Congress, they don't agree.

I will say we've done some back of the envelope numbers, and I also have the distinct pleasure of being one of the fuel counting people at USDOT, so I'm working right now on a major, you know, gas regulation as part of the administration's, both the 2010 by the President and the response to -- we're working on a huge fuel economy and alternative fuel regulation as we speak.

We've done some back of the envelope numbers, though, on the reduction of congestion and the benefits of fuel economy, and the short answer is, if you priced correctly two to three major metropolitan area highway systems, you'd save about the same amount of fuel as the entire light truck fuel economy regulation that the department promulgated a year and a half ago.

I mean we, you know, the misuse of fuel, which has gotten, you know, obviously it's directly connected with -- emissions, it's gotten far too little attention as an environmental policy matter.

SPEAKER: What do you all think about the issue of future land forming use that I mentioned earlier? Ron responded something about that. I wonder if any of the rest of you have thoughts on that, because if we really were to think about more compact land forms as we add the next hundred million people, it would have a huge impact on energy use, greenhouse gas emissions, and yet how does that become a -- is that a bottoms up policy, is that a national policy that needs to be -- or national incentives for more compact development?

SPEAKER: It would be very nice if the federal government decided to remove the tax incentives that bring about sprawl. And whether it's -- and the members, I mean the Federal Home Loan Bank, the Fannie Mae, others who are really still looking for, we'll call it newer construction and not density and renovation and remodeling.

Densities work, and you can't talk about our ability to meet GAC emission standards, you cannot talk about it in terms of fuel economy, you can't talk about it in terms of an overall and very significant operations and maintenance bill in the long run, to all of a sudden say let's allow sprawl.

So land use decisions are going to be incredibly important over the next 20 years. We often talk about cities, but remember, most of the land use is being -- most of the land being made available is made available by counties. So the -- I've always said the counties have a significant role that they're going to play, but constrained developable land is going to be absolutely imperative.

Densities work; in our area we have livable cities. I mean you look at the city -- it used to be -- my good friend, Norm Rice, was the mayor, there was a newspaper article that said everybody is leaving Seattle, I'll never forget it, because we had three downtown stores close, that is not a problem with downtown Seattle anymore because we constrained growth, and people then were forced to come back into the city of Bellevue, which are called I think -- we just called them urban areas, and so now all these really hot areas that people want to live are infield, and it's made their city stronger and more viable, more amenities, more arts, more parks, more trails, more people being conscientious about the quality of the educational system, and spending enormous, and there's huge benefits derived from that.

So if you allow sprawl, you move people out, and they'll find it never pays for itself because it's going to be too costly for them to form and pay for their own infrastructure, and they're going to have to take it from some place, which tends to be older areas. So I think that whether you're talking about transportation efficiency, whether you're talking about GAC reductions, I can go on and on, you're going to have to constrain the amount of land that we -- that's going to be developed, and I think we're doing it very well in our area. Portland is doing it very well, Vancouver, Canada is doing it very well. I think the cities that, you know, now are trying to be what we call the ten most viable metropolitan areas all have now said that they, you know, we've got to begin to look at what we call smart growth, the constraint of land development.

SPEAKER: George, how do you hear that conversation, or don't you, in the business sector?

MR. BILICIC: I would say that, on the sprawl question, there's not a real focus on our business on the problems of sprawl, but there is some focus on the economic growth initiative that could come from looking at some of the older suburban areas and trying to create more density.

A great case study in that regard is Nassau County, which is essentially -- you can't sprawl it anymore as a practical matter. And so for there to be growth in the tax -- for there to be economic growth, there needs to be more density.

I'd say also that in the -- in terms of greenhouse gas emissions and the relationship to sprawl and broadband, I'd say the area that we see people focusing more on, it's just a great commentary on the creativeness of this country and the initiatives of this country, in this area, is in the alternative energy area. We see -- if you go to Menlo Park now, just about everyone is focused on a clean tech. And when you talk to people who understand the technology, a lot of the solutions are not fundamentally high tech solutions; it's solutions, more industrial processed questions, some technological innovation, but it's just a matter of pulling the capital together in some technological way, but not a lot.

And we see the resource issues and the greenhouse gas issues probably being solved more in that area than in the -- than in areas like land use and broadband, although we, quite frankly, don't think a lot about broadband.

So on solar -- if you look at the costs of some of the solar technology, they're becoming very competitive with conventional generation technology, especially when you take into account the capital costs, increasing in those areas, and of course, externalities, and the code is very close to being cracked on energy storage, electricity storage, and batteries and things of that nature.

SPEAKER: Those are all encouraging trends, and willingness. Ron's naming of a few -- of several stand out communities are thinking about on the other side here where you need to restrain growth so that you can focus it better, it's a short list relatively in the United States today, it has been for a long time, and so where we go from there, if that becomes an important part, in addition to the incentives you're talking about is a mystery to me. And I'm not even sure that broadband can solve that problem. It can solve a lot of other problems, but not that one.

SPEAKER: I've got to say, we can talk about the Washington Metropolitan area, you know, I get the luxury of flying in and flying out, and -- but I love Washington, D.C., I have -- my in-laws are here and I find it an incredibly fascinating and wonderful community, and I'm glad this is the nation's capital.

But when you travel overseas, and I traveled, you know, my wife is from the Philippines, so I went over to the Philippines, and I once remarked to her that the Philippine economy is burning up in its congestion, you can just see it. It takes all day to go from one side of Manila to the other, and there's a lot of leaded gas, and it's just not a lot of fun.

But if you look at the metropolitan area, as it congests, it's going to run into the same problems as you see in a lot of developing worlds, where the economy is going to sit there and burn up on the freeway, and that's why I talk about more dense cities, but you also have to have far more efficient use of limited access roads, and that's why I like them being priced, because I don't believe in the 21st century, which is going to be the most competitive. We heard speakers talk about, you know, the -- in China, you know, those occurring in India, but even as a greater amount of investment is taking place where people really want to put an infrastructure that allows them to compete more favorably with the European, China, India, and the United States, that we've really got to begin to focus on making that system incredibly efficient and its use, so that we don't -- can't look at the amount of fuel being burned in congestion, which is money going up in smoke literally, and -- or the time it takes, or the health care costs associated with people being in congestion for an hour, an hour and a half.

The human body was never designed to be under that amount of stress from commute to work and then to go back home again. And so we're beginning to see the debilitating effects of that, when people get into their late 60's and early 70's, and we can correlate health care cost growth for that population with whether or not they were commuter or not or whether they used public transportation or not, because we drove down on it, and the report is very, very clear to us that health outcomes can be determined for people in their late 60's and early 70's by the extent of their commute. A body was never designed to be pounded like that for 20 to 30 years.

SPEAKER: How does the federal government set up in silos, housing is over here, transportation is over here, the Environmental Protection Agency is over here, ever begin to see the whole body that we're hearing described?

SPEAKER: I mean, you know, I think it's clear that you've got, and I think Ron pointed it, you've got very competing federal, state, and local policies, and you know, we shouldn't be scratching our heads kind of why we're in this situation, why these systems are declining, why people are making housing.

I mean there's this kind of -- reaction like -- people for exercising economic freedom under the policy construct that we should establish. That's clearly -- it's a foolish approach. So I mean I think there's, you know, I think, you know, obviously HUD and DOT used to be -- I think FDA and HUD used to be, right George, part of the same organization? That was an interesting approach.

I think the nexus -- I mean, frankly, the one area that's gotten far little research -- too little research attention, I know Cliff -- of Brookings is doing some research on this exact question right now, is the -- and transportation system -- and it's very clear to anybody who goes to cocktail parties that there's a very close relationship.

What's clear, too, is that high income and middle income people, you know, especially high income people will buy themselves out of the -- of the system. And when I lived in Arlington, and I have a wife and two little kids now, I can tell you, we didn't see too many families, and we -- and this is kind of the model for transoriented development in many respects on the east coast, we didn't see too many families that, you know, a three bedroom townhouse five years ago was $800,000. So we need to be clear that these policies need to work together, that we will have significant tax on who's living in these places, what we're doing to low income peoples' housing decisions I think from a lot of these decisions is an important piece of it that's gotten far too little analysis.

So I mean the short answer is, I'm not sure that is the federal government's role. I think that there's a huge emphasis right now to get the federal government more engaged. But, you know, frankly, people like Ron Sims, as far as I'm concerned, need to be liberated and embraced in these urban areas, and that what I hear is that -- policy starts to -- federal policy can change obviously based on administrations and congresses, and you know, what you don't want to do is create a system that really cycles people like this. I mean the most important thing the federal government can do is unleash people like Ron Sims.

SPEAKER: Well, the same silos apply in state government, so it's not an exclusive local government. Ready for questions? Yes, sir.

SPEAKER: You know, getting back to the gentleman's question earlier to my right here, where is the political will for some of this? We can talk all we want about smart investing, but at some point we've got to talk about really putting in the dollars to do this. Case in point, 30 years ago I was working for a construction magazine, frankly, we knew then that the Japanese could out tunnel us, and they're doing it today. A stone's throw from here we've got a project being -- in Virginia to run a tunnel from the -- so the metro line can extend to Dulles. I'm glad we have somebody from the Department of Transportation to beat up on here today.

But the reality is, the Japanese would smile, the political will would be there to put that tunnel through in less than a year. Here it's a project that, you know, at best, it's going to be five or six years, there will be cost overruns. At the Department of Transportation everyone sits back and says this will be another Big Dig similar to Boston. Where is the political will to just make these projects happen like they would in Japan?

SPEAKER: What we see, again not as experts in the public affairs area, but we see politicians and governmental officials becoming somewhat excited about this area partly because it's being identified as a problem but also as a source of economic growth. If you look at how the sophisticated the American public has become in terms of their awareness of investments and how money works, there is a sense that there's a greater potential for public support around creative solutions to infrastructure than there would have been 20 to 30 years ago. The good news about this country is it is basically a clean slate in terms of creative approaches to infrastructure because it's been largely publicly financed. We see there being a germ of political potential support and impetus with those factors.

MR. PEIRCE: I was interested in the governor this morning in the keynote talking about engaging young people in infrastructure, a different picture. Another question? Yes, sir. I was recognizing the gentleman right you with the white shirt, and we'll come to you next.

SPEAKER: I looked in the "Post" editorial section this week and there was an article about the ratio of spending for things now and research, and this had to do with carbon emissions saying it costs way too much to lower it now, our best bet is to put most of our money into research. Do you agree with that, and is that true for other aspects of infrastructure?

MR. PEIRCE: Any thoughts?

SPEAKER: I'm not a qualified expert to opine on the strategies being pursued at a national level. I know in my world in transportation we strongly believe obviously that fuel economy rules should be tightened and strengthened both for passenger cars and light trucks and we're working on that as we speak along with EPA. We think there's a lot you can do in the short-term. Obviously the research budget in the United States in this area, and this is something I have read a little bit about, far and away exceeds that of any other nation in terms of what we're researching. I think the short answer is you need research but you also need to take some serious short-term actions and work on both I think.

SPEAKER: We have made a decision to go ahead and lay out thresholds, so we're going through that process right now where we identify the comprehensive plan which is county's entire plan and in that plan we laid out what we considered to be the carbon standards, emission standards, for land use, for transportation, for construction. We're sending it to my legislative body which is the county council for adoption, and so you have to start somewhere. I think what the research will allow us to do is to begin to perfect those models, but I think it's important for people to begin to act on them. I think California is going to be the next because it is very clear that their counties are going to come back within the next 18 months with standards as well because they're asking for ours. But I think there is a lot of research necessary so that you can become far more precise. We know a lot now and research only allows us to act with more precision.

SPEAKER: And California counties need to know more because Jerry Brown, the attorney general, is suing them.

SPEAKER: He sued them and there was a settlement with San Bernardino County. They called us because on our Web page they saw our standards posted, and they're going through that process now.

MR. PEIRCE: Let's recognize this gentleman right here.

QUESTION: I guess this is a question for Mr. Bilicic. I know there has been quite a bit of criticism and skepticism about using private capital to lease existing toll roads. But what about using private capital to build new roads? Will there ever be enough tax revenue to finance our highway infrastructure in the future without the use of private capital?

MR. BILICIC: We are very focused and almost obsessive about telling governments they should start a process, go through a process where they identify what the funding gap is. It's sort of what private companies or publicly traded companies do. They look at their long-term capital expenditure budget, the programs they want to finance, and then they identify what the sources of capital available are and how they're going to finance it. What we see is that in a sense there is a funding gap in the country in respect to assets that have traditionally financed with public money and we think private capital can be part of that solution whether it's green field project or a new build, a hot lane in a toll road, or by asking private capital to invest in a brown field project in an existing toll road and then recycling that capital into new infrastructure projects or into the health care system for example, but it has to be carefully utilized. It is a dangerous tool for governments to make use of. The solvency question that I talked about earlier, the technically right answer is that you can structure these transactions so that the government doesn't have solvency risk. That's exactly the way the Chicago deals have been done. What can't insulate yourself from is the political risk of these projects going into the tank because they're not capitalized properly and then the embarrassment when you've sold something for 100 and then the private equity firm takes the capital out at an applied value of 120 and so the relevant mayor or governmental official has to explain that to his citizens as to why he sold something for 100 that is clearly worth 120.

MR. PEIRCE: Are there any other thoughts on that issue?

SPEAKER: I think that we've got a chronic undercapitalization problem with publicly provided U.S. infrastructure and it's driven by a political calculus that basically says if you've got $100 million to invest in supercapitalization of an asset that could last 99 years or you could invest $100 million in a school and let the fifth governor from now bear the costs of your underinvestment decision, that's what you do. So what we've preached increasingly is that you can build in place, and in fact the current operators of the Chicago Skyway have acknowledged that the next time they have to recapitalize the Chicago Skyway, it will probably be the longest lasting investment in the

United States. The problem is the incentive structure with government monopoly provision of these assets is very difficult. And to your question, the question we ask is not why don't we have the political will to build projects, it's why don't we have the political will to build the right projects and how do we define what the right projects are. I think each project can have it defenders and opponents, but we do not have a model in place right now to decide why the Dulles rail project is better than double-decking this road right out here and so what we have is a political fight. I think the Japanese have developed some economic models to make investments, and by the way, they've got the word's best inner-city passenger rail system that is entirely privately operated -- the question is how do we develop this framework at the national level, and we have said repeatedly cost-benefit analyses, and I just real that we are having this commission meeting as we speak that the secretary is chairing, a commission looking at the future of the transportation system. I am not going to name the commissioner who said this, but the comment was the cost-benefit analysis is inconsistent with the public interest and you just kind of scratch your head.

This is the problem we've got in this country, we don't have an agreed on framework for infrastructure investment. I would be thrilled, and forget talking about the private sector, if we at least pushed the public sector to a model of cost-benefit investment.

SPEAKER: I think that one thing that is really clear though that we are going to go into a crisis. There's a lot of discussion taking place but there's no sense that we're in a crisis. We don't have enough money to build the existing system. We've talked about new roads. I don't know how we even have the resources based upon tax revenues to deal with our existing demand. So I think you get to a point where the country hits a crisis and those same citizens who are now saying we don't want to see private capital in a lot of areas will all of a sudden say if that's how we have to pay for it, that's what we have to do. I think we are several years away from that crisis, but nonetheless, if you look at the numbers, and that's all you got to do, we are going to be driven to having to make that decision because people are not going to want to be taxed into having to pay for their existing infrastructure and then a brand new one.

MR. PEIRCE: Let's thank this panel.

(Applause.)

SPEAKER: Let me finish with these thoughts. We have done two remarkable things today. First of all, we've actually talked about infrastructure for 3 hours and that's a rare circumstance in Washington, D.C. I think second of all, there is actually an enormous amount of agreement across the two panels with Governor Vilsack as well, and I think there's almost sort of a linear logic flow here as we have come up with different people stressing different things. A, we are at a time of very dynamic change demographically, economically, environmentally, and technologically. B, that change brings great opportunity, but there are some huge challenges that face the country, sustainability, the social issues that were raised. C, infrastructure is a means to advance many of these national priorities and achieve many of our national goals, but it hasn't really been thought of that way. It's really been a transactional kind of process, project by project by project. It hasn't really even been thought about policy, it's more just about a collection of projects. D, the system is woefully broken. Again, we've got lots of words to describe that, but I think it's hit a point where the negative implications of a dysfunctional system are really sort of coming home. E, innovation is happening, and we heard it in the private sector, we heard it at the metropolitan level, we heard it at the national level with some of the recent work on congestion pricing, and we clearly see it internationally.

That leads you to I think where Vilsack was going in his keynote which is that there is another way. There is another way to plan out either on the economic side or on the environmental side a vision for the country and have infrastructure basically be in service of that in the long-term, and I'm not saying decades here, but in Washington the long-term is anything beyond 2 years, we've got to start moving toward an outcome-driven, evidence-based kind of system that crosses a lot of these modes and crosses from physical to intangible.

I am very interested in this transition issue though of whether you could take a certain kind of investment corporation or infrastructure bank and begin to demonstrate a different kind of investing at the national level but also trying to send signals to metros and say we want you at the end of the day not to build this project, but to achieve these goals. So come back to us in a fairly wide open way and tell us what are the multiple processes that you might need to pursue. Some of it is new money, but a lot of it is really about policy and regulation and so forth and I think there may be a transitional way to demonstrate how we get there. There was some disagreement about capital budgeting, and I thought that was a very interesting conversation that we need to flesh out further.

So from the Brookings perspective, we are on target I think to put forward a very complementary infrastructure proposal later this fall broadly defined as part of a broader blueprint for American prosperity that mostly focuses on how to build on the health and vitality of our major metropolitan areas which for all intents and purposes drive and dominate not just our economy but the global economy. So I think this is an enormously helpful conversation for us today and I think Rob Fuentes and I and others in the room have really away some very concrete, specific ideas about improving what already is sort of the drafting of these proposals to put forward. It was a very helpful conversation and I really again thank Bernard Schwartz for allowing us to pursue this. Thank you.

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